REPORT BY THE

OFFICE OF THE AUDITOR GENERAL

P-744

CALIFORNIA'S REGIONAL CENTERS FOR THE DEVELOPMENTALLY DISABLED NEED BETTER FINANCIAL CONTROLS

AUGUST 1988

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SUMMARY

RESULTS IN BRIEF

The Department of Developmental Services (department) contracts with 21 regional centers to provide services to people with developmental disabilities. However, some regional centers have poor fiscal and administrative controls over the funds that the State allocated to the regional centers, which totaled $402.7 million in fiscal year 1987-88. We found the following specific conditions:

- Since 1985, at least 5 of the 21 regional centers have had serious fiscal management deficiencies. For example, the Regional Center of the East Bay has had weak fiscal and administrative controls in multiple areas, including controls over disbursements, inventory, and client monies.

- At least six regional centers do not use all benefit monies available to clients from third-party sources to pay for client services, thus increasing the State's cost for these services. For example, for five clients that we reviewed, a regional center should have used $30,546 in third-party benefits to pay for services over a two-year period rather than using state funds.

- The department has provided only limited oversight of fiscal operations at the regional centers. For example, the department discontinued fiscal audits of regional centers in 1985; at that time it had conducted fiscal audits of regional centers through fiscal year 1982-83. Additionally, it has not followed up on the deficiencies noted in independent audit reports submitted by regional centers for fiscal years 1984-85 and 1985-86. However, the department is presently taking steps to improve its review of regional centers.

BACKGROUND

The department is responsible for coordinating services to persons with developmental disabilities, which include handicaps from mental retardation, cerebral palsy, epilepsy, and certain other neurologically handicapping conditions. Services are provided to clients through a system of 21 private, nonprofit regional centers throughout the State. In fiscal year 1987-88, the contracts for individual regional centers ranged from $7.5 million to $31.0 million. The combined budget for the regional centers included $115.4 million for operating expenses and $287.3 million for services to approximately 88,500 clients.

The department is responsible for the centralized administration of the 21 regional centers. Department responsibilities include contracting with the regional center, negotiating a budget, allocating funds, maintaining strict accountability for expenditures, developing and implementing procedures and regulations for regional center operations, and providing technical assistance to regional centers.

In June 1981, the Office of the Auditor General issued a report entitled "The State Department of Developmental Services' Administration of the Program for the Developmentally Disabled Needs Improvement," Report P-007. Among other issues, that report noted that the department needed to improve its fiscal monitoring of regional centers.

PRINCIPAL FINDINGS

Some Regional Centers Need To Improve Controls Over State and Client Funds

The quality of fiscal management at the regional centers varies. Since 1985, at least 5 of the 21 regional centers have experienced serious fiscal management deficiencies. For

example, one of the regional centers that we visited failed to comply with its own procedures or with sound internal control policies in most areas reviewed. As a result, this center cannot provide accurate information on its financial condition or accurate balances on client accounts, nor can it ensure that it spent state funds appropriately.

In the last three years, three other regional centers have had fiscal management problems severe enough to cause the department to add special requirements in their contracts, cancel their contracts, or assume temporary control over the operation of the center. Further, the Department of Finance reported in April 1988 that another regional center that it had visited had serious deficiencies in fiscal controls.

In addition to these five regional centers that have fiscal management problems, other regional centers are having trouble. For example, 14 regional centers reported that they have problems reconciling the subsidiary ledgers for the client trust fund and the fund for purchasing client services with the general ledger accounts. Also, 12 regional centers reported problems maintaining client accounts.

Furthermore, some regional centers do not make the most efficient use of state funds to purchase services for clients. At least six regional centers do not use all available client benefit monies from third-party sources to pay for client services before using state funds. For example, one regional center did not use $30,546 in third-party benefits for five clients for a 24-month period, and another regional center did not use $2,500 in benefits for seven clients for up to a six-month period. Moreover, at least four regional centers failed to ensure that clients remain eligible for third-party benefits. For example, two regional centers each allowed over 300 client accounts to exceed the limit beyond which clients may lose their eligibility for benefits from the Social Security Administration. As a result of not properly managing clients' third-party benefits, the State pays more for client services than necessary, and, therefore, fewer state funds are available for additional client services.

The Department of Developmental Services Needs To Improve Its Oversight of Fiscal Operations at the Regional Centers

The department discontinued audits of fiscal operations at the regional centers after fiscal year 1982-83. Since 1985, it has conducted special reviews at 4 of the 21 regional centers in response to specific problems at those centers. In addition, although the department's contracts with the regional centers have required regional centers to submit independent audit reports on their fiscal operations for fiscal years 1984-85 and 1985-86, the department has not followed up on the internal control and fiscal management deficiencies identified in these reports. Further, these independent audit reports do not always include a statement on the review of internal controls, nor do they present data in a manner that allows comparison among the 21 regional centers.

The department has also been slow to use its automated accounting system, installed in the regional centers in 1984, for routine monitoring of regional centers. Additionally, the department has not ensured that regional centers can use the automated system effectively to record all accounting transactions. At least 14 regional centers have reported they have problems maintaining accounting records on the automated system.

Finally, the department has not ensured that regional centers adequately safeguard state property or provide the department with a complete and accurate list of state assets. For example, because of poor inventory controls at one regional center, we could not verify the existence of 22 (69 percent) of 32 items that we attempted to locate. Further, this regional center had not reported to the department for inventory purposes 12 (52 percent) of 23 items that it should have reported. Therefore, the State's inventory is understated by at least $79,718, the value of these 12 items. The total value of inventory at all of the regional centers that is reported to the department is $6 million.

Specific Findings at the Regional Center of the East Bay and the Developmental Disabilities Center

The Regional Center of the East Bay (RCEB) lacked fiscal and administrative controls to manage state and client funds properly. This lack of controls increases the possibility of theft, fraud, and abuse at the RCEB. Control weaknesses also prevent the RCEB from accurately accounting for all disbursements and assets or providing accurate information about its financial condition. The RCEB also has not accurately accounted for client monies. As a result, the RCEB does not know how much money each client should have in his or her account. Further, the RCEB has not used all of the client benefit monies from third-party sources to pay for client services before using state funds, thus increasing the State's costs for client services. However, the RCEB properly authorized appropriate services for clients and paid the correct amount for the disbursements for client services that we reviewed.

The Developmental Disabilities Center (DDC) has satisfactory controls over most disbursements for operations and for client services. However, the DDC can improve its management of consultant contracts. In addition, the DDC does not use all third-party benefits to pay for client services before using state funds.

CORRECTIVE ACTION

The department is taking steps to improve its fiscal oversight of the regional centers. The department intends to begin on-site fiscal reviews of regional centers in August 1988. Also, in March 1988, it trained staff to use the automated fiscal reporting system as a monitoring tool. In addition, the department has recently begun to identify those centers needing additional assistance in using the automated fiscal reporting system.

Further, the board of directors at the RCEB has recently replaced key management personnel. The new executive director of the regional center and his staff are working to correct identified fiscal and administrative weaknesses and have submitted a plan of corrective action for the department's approval.

RECOMMENDATIONS

To ensure that regional centers efficiently and appropriately manage their multi-million dollar budgets of state funds and properly manage client monies, the department should take the following actions:

- Expand the scope of the annual independent fiscal audits of regional centers. The scope should include a review of internal controls, and all findings and management letters should be included in the reports submitted to the department. Additionally, the department should promptly follow up on the deficiencies identified in these reports and should use these reports to determine which regional centers need additional review;

- Implement its plan to provide improved oversight of regional centers' fiscal management as soon as possible; and

- Provide additional technical assistance to those regional centers that need it, and ensure that they can effectively operate the automated accounting system.

- Make certain that regional centers implement the necessary fiscal controls to ensure accountability and proper expenditure of state and client funds; and

- Ensure that regional centers make the most efficient use of client benefits from third-party sources to pay for client services.

AGENCY COMMENTS

The Department of Developmental Services acknowledges that some regional centers have been less aggressive than others in identifying and pursuing all third-party funds. However, it believes that it does not have explicit statutory authority to require regional centers to take any specific actions to collect third-party funds. Nevertheless, the department states that it will continue to work with regional centers to clarify their responsibilities, suggest possible courses of action, and monitor their activities. Further, the department will attempt to identify any legal barriers that prevent regional centers from obtaining the information they need to fully identify and pursue third-party funds.

The department agrees that certain regional centers have had serious fiscal management problems. However, it points out that, through its own monitoring and oversight activities, it had already identified fiscal problems at the five regional centers discussed in our report and had taken steps to correct the problems. Further, the department explains that it discontinued its regular audits of regional centers and relied on the reports of independent auditors because it felt that closer monitoring of vendors would make more efficient use of limited resources. In addition, the department felt that the implementation of and adjustment to the new automated accounting system made a comprehensive audit impractical. Moreover, the department also believes that it has made every effort to ensure that the regional centers could effectively use the new system.

The department agrees that some problems have existed with the regional center inventory process although it states that it is not aware of any misuses or malicious disregard for the safeguarding of state property. However, the department points out that, on July 1, 1988, it implemented procedures requiring the maintenance of a current property custodian list, the provision of technical assistance to the regional centers, and the monitoring of the regional centers' inventory lists.

INTRODUCTION

The Department of Developmental Services (department) is responsible for setting statewide policy for services to people with developmental disabilities and for coordinating the delivery of these services. The department contracts with 21 private, nonprofit regional centers throughout the State to provide local services to clients.

Developmental disabilities are defined in the Lanterman Developmental Disabilities Services Act, Section 4500 et seq. of the Welfare and Institutions Code. According to this act, developmental disabilities include handicaps resulting from mental retardation, cerebral palsy, epilepsy, and certain other neurological conditions. Developmental disabilities do not include handicaps that are solely physical. To be eligible for services, a person's disability must originate before he or she is 18 years old, must be continuing or expected to continue indefinitely, and must constitute a substantial handicap.

Organization

The regional centers are responsible for assessing and diagnosing clients' disabilities, managing clients' cases, planning and evaluating programs for clients, and obtaining appropriate services from outside sources. If a client needs services that are not available through other public agencies, the regional center may

purchase these services directly. Such services for clients may include residential care, day activity programs, transportation, and certain types of medical care. Each regional center is required by law to have a governing board of directors or a program policy committee with community representatives who reflect the ethnic and geographic characteristics of the area the center serves. The board is responsible for developing the regional center's policy defining services to be purchased for clients.

The department, in addition to its responsibility for setting statewide policy and coordinating the delivery of services, is responsible for reviewing and evaluating the operation of the services and for overseeing the correction of deficient procedures or practices. The department's Community Services Division (CSD) and the Program Assessment Division (PAD) are responsible for oversight of the regional centers.

The CSD's responsibilities include preparing the annual contract with each of the 21 regional centers; negotiating budgets with and allocating funds to the centers; and maintaining strict accountability, oversight, and projection of expenditures. In addition, the CSD develops policies, procedures, and regulations for the operation of the regional centers and directs the implementation of these policies. It also provides technical assistance to regional centers. In fiscal year 1987-88, the CSD was authorized 53 staff positions to carry out its responsibilities.

The department's PAD is responsible for coordinating the review, evaluation, audit, and investigations of regional centers and providers of client services. The audit branch within the PAD is responsible specifically for conducting fiscal and compliance audits of regional centers and their service providers to ensure that the State's funds and property are properly used. Audit branch responsibilities also include reviewing independent fiscal audit reports submitted annually by the regional centers, reviewing internal controls, and consulting on fiscal controls and fiscal management. In fiscal year 1987-88, the PAD was authorized 35 staff positions; 15 of these positions were authorized for the audit branch.

Funding

The regional centers' primary source of funds is the State's General Fund. The State's annual contracts with the 21 regional centers prescribe how funds will be spent to serve developmentally disabled persons and specify the amount of funds that will be allocated to each of the centers. This amount is based primarily on client caseload and services that the department projects will be purchased for that fiscal year. For fiscal year 1987-88, the dollar amount of the contracts for each regional center ranged from $7.5 million to $31.0 million.

The department divides the allocation of funds with which the State provides the regional centers into two categories. The first category is for regional center operations and includes salaries and wages, staff benefits, and operating expenses such as costs for rent, insurance, and maintenance of property and equipment. The second category provides funds to purchase services for clients. Of the $402.7 million that the State allocated to regional centers for fiscal year 1987-88, $115.4 million was for operations and $287.3 million was to purchase services for clients. The statewide client caseload for fiscal year 1987-88 is estimated at over 88,500.

Client Trust Funds

The regional centers are also responsible for managing the monies of some of their clients. When a client enters the regional center system, the client or the client's guardian may elect to have the regional center be the representative payee for the client. When the regional center is the representative payee, the regional center manages the client's monies, receiving the income and making disbursements on behalf of the client. The regional center can keep all client monies in one bank account as long as it keeps individual client account records. If the regional center keeps the monies in a combined bank account, it must determine the amount of interest earned on each client's account and record that amount to each client's account. The regional center uses some of the money in this account to pay for services for the client; the client can spend any additional money in this account for personal use.

Additionally, as the representative payee, the regional center is required to ensure that the client applies for any benefits that may be available from third-party sources. Third-party sources are sources other than the regional center, client, or client's parent or guardian. Most clients are eligible for Supplemental Security Income/ State Supplementary Program (SSI/SSP) benefits, and a significant number of clients qualify for social security benefits. The amount of SSI/SSP benefits that a client receives each month depends on the client's level of income and resources. Some clients are also eligible for benefits from other third-party sources, such as insurance companies or the parent's employer. The regional centers were the representative payee for approximately 17,250 clients as of May 1987, the latest date for which such data is available. At the end of May 1988, clients' individual accounts totaled an estimated $4.9 million.

SCOPE AND METHODOLOGY

The purpose of this audit was to determine whether regional centers have the necessary fiscal controls to ensure proper accountability for and expenditure of state monies for the developmentally disabled. Our review concentrated on 2 of the 21 regional centers in California: the Regional Center of the East Bay (RCEB) in Oakland and the Developmental Disabilities Center (DDC) in Orange. We conducted our fieldwork at these two regional centers during the period October 1987 through April 1988. These two centers

received $55.0 million (14 percent) of the $402.7 million allocated to regional centers in fiscal year 1987-88. An additional purpose of this audit was to evaluate the effectiveness of the department in overseeing the fiscal management of the regional centers.

To determine whether regional centers have proper fiscal controls over state funds, we reviewed disbursements made in fiscal year 1986-87 at the two regional centers that we visited. Additionally, we reviewed the annual contracts and related documents for several years for the five regional centers known to have serious fiscal management deficiencies. We also reviewed reports of fiscal audits and special reviews that the department conducted for these regional centers. Furthermore, we reviewed the independent audit reports that eight regional centers submitted to the department for fiscal year 1985-86. We also reviewed a report released by the Department of Finance in April 1988 that addresses fiscal controls at the regional centers, and we reviewed the workpapers supporting the report. Additionally, we contacted five regional centers to determine whether they applied all client benefits from third-parties toward the cost of client services.

To evaluate the department's oversight of the regional centers, we reviewed the department's legal responsibilities, policies, and procedures related to oversight of regional centers. We interviewed department officials and personnel from the PAD and the CSD, and we reviewed documentation from both divisions regarding the

department's oversight activities. Specifically, we reviewed the documentation of special fiscal reviews conducted by the department from 1985 through March 1988 and the department's follow-up reviews. We also reviewed the department's analysis of independent fiscal audits submitted by the regional centers for fiscal year 1985-86 and the Client Assessment and Services Effectiveness reviews conducted by the department at 12 regional centers. We also reviewed the policy and procedures manuals that the department provides to the regional centers for guidance on fiscal and operational procedures.

To evaluate the department's technical assistance to the regional centers, we reviewed the manuals that the department has provided to the regional centers for operating the Uniform Fiscal System (UFS), the automated accounting system that regional centers are required to use. We interviewed regional center staff who use the system and regional center officials regarding the technical assistance that the department has provided for UFS users. We also met with representatives of the consulting firm that the department hired to develop the UFS and to train department and regional center personnel in its use.

Finally, we interviewed personnel from the department's Business Services Section to determine the methods that the department uses to oversee regional centers' controls over state property. We also reviewed a list of the physical inventories that the department has conducted at regional centers from 1981 through the present. We

reviewed documentation of the most recent inventories that the department conducted at the two regional centers that we visited.

Scope Limitation

We determined that the RCEB did not record in its accounting records an unknown number of disbursements that it made in fiscal year 1986-87. This deficiency in recordkeeping limited the scope of our audit tests to the disbursements that the RCEB had recorded in its accounting records. Further, during our review we determined that the RCEB had entered some disbursements in incorrect accounts. Therefore, figures for total transactions and expenditures in some accounts are incorrectly stated.

Also, in this report we cite information from reports issued by the department. We did not conduct audit tests or other analyses to satisfy ourselves as to the adequacy of the audit work that supports the specific deficiencies and conclusions cited in these reports.

CHAPTER I

SOME REGIONAL CENTERS NEED TO IMPROVE CONTROLS OVER STATE AND CLIENT FUNDS

The quality of fiscal management varies among regional centers. Although some regional centers reviewed have been found to have adequate fiscal management controls, other regional centers have poor controls over state and client assets. Since 1985, at least 5 of the 21 regional centers have been identified as having serious deficiencies in fiscal management. Without adequate fiscal controls, these regional centers cannot ensure accountability for or proper expenditure of the funds that the State allocates to the regional centers, which amounted to $402.7 million in fiscal year 1987-88. Furthermore, at least seven regional centers have been deficient in managing clients' monies. In May 1988, client monies for all regional centers totaled $4.9 million.

In addition to lacking the fiscal controls to ensure accountability for state and client funds, at least 7 of the 21 regional centers do not make the most efficient use of state funds to provide client services. At least 6 of the 21 regional centers do not use all available client benefit monies from third-party sources before using state funds to purchase services for clients. For example, for five clients that we reviewed, one regional center did not use $30,546 in third-party benefits over a two-year period. Additionally, at least one regional center unnecessarily loans state funds to clients although the clients receive sufficient third-party benefits to pay for client

services. For 11 clients that we reviewed, this regional center unnecessarily paid a total of $5,074 in state funds over a 20-month period even though the clients had received sufficient third-party benefits to pay for client services. Furthermore, at least four regional centers have failed to ensure that clients remain eligible for Supplemental Security Income/State Supplementary Program benefits, which, if discontinued, would have to be replaced by state funds. For example, two regional centers each allowed over 300 client accounts to exceed the limit beyond which clients may lose their eligibility for benefits from the Social Security Administration; consequently, the clients are at risk of losing their benefits. As a result of these deficiencies, the State spends more for client services than necessary and, therefore, fewer funds are available for additional services.

SOME REGIONAL CENTERS LACK FISCAL MANAGEMENT CONTROLS

Since 1985, at least 5 (24 percent) of the 21 regional centers have been identified as having serious problems related to fiscal controls. These centers have lacked fiscal and administrative controls to ensure proper expenditure of and accountability for both state and client monies.

The Welfare and Institutions Code specifies that the Department of Developmental Services' (department) contracts with the regional centers shall require the regional centers to maintain strict accountability for all revenues and expenditures. In addition, the

department requires regional centers to have a system that will provide adequate control over all assets, liabilities, revenues, and expenditures. Further, the regional centers have a responsibility to keep accurate records of the clients' monies and to manage the monies in the best interests of the clients.

Regional Centers Reviewed by the
Office of the Auditor General

Of the two regional centers where we conducted on-site fieldwork, the Developmental Disabilities Center had satisfactory controls in most of the areas that we reviewed; in contrast, the Regional Center of the East Bay (RCEB) failed to comply with its own procedures or with sound internal control policies in most of the areas that we reviewed. As a result, this center cannot provide accurate information on its financial condition or accurate balances on client trust accounts, and it cannot ensure that the monies that it disbursed were spent appropriately. In addition, the weak fiscal controls increase exposure of the regional center and the State to theft, fraud, and abuse.

As an example of weak fiscal controls, the RCEB did not record all disbursements made in fiscal year 1986-87 into its accounting

records. We reviewed 72 cancelled checks written by the RCEB.[1] For 10 (14 percent) of the 72 checks that we reviewed, the RCEB had not recorded journal entry numbers into the check register. Therefore, the RCEB cannot determine whether it recorded these ten disbursements, which total $37,272, in its accounting records or to which accounts it charged the disbursements, if it did record them. Subsequent investigation by the RCEB also confirmed that the RCEB did not record all disbursements into its accounting records. Furthermore, the RCEB did not properly control its blank check stock. The RCEB stored its blank check stock in an unlocked area, and all RCEB employees had access to the blank checks. Consequently, checks were not written in sequential order, and some check numbers are missing from the RCEB's accounting records, resulting in a loss of accountability for checks.

Additionally, the RCEB did not always approve operating expenses before incurring them or document or properly approve disbursements before making payment. Of 35 expenses that we reviewed, 21 (60 percent), totaling $1,886, lacked proper documentation and/or approval. For example, the RCEB paid a board member $640 for travel expenses without requiring the board member to submit receipts.

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[1]Because the RCEB did not maintain a complete register of checks written and did not write checks in sequential order, we could not determine the actual number of checks written by the RCEB in fiscal year 1986-87.

Furthermore, the RCEB did not maintain adequate controls over equipment. We attempted to locate 32 items but we could not verify the existence of 22 (69 percent) items valued at approximately $83,010. We found some items that resembled those that we could not locate, but, because the RCEB did not record the serial numbers of all equipment or put uniquely numbered state identification tags on all equipment, we could not verify that the items found were the ones in our sample. The RCEB also did not report all equipment purchased for $150 or more to the department as required. Of the 23 items in our sample that should have been reported to the department, the RCEB had not reported 12 (52.2 percent). Consequently, the State's inventory is understated by at least $79,718, the value of these 12 items.

The RCEB has also been deficient in managing client trust monies. As of January 1, 1988, the RCEB was the representative payee for 484 clients. The RCEB is responsible for managing the monies of these clients, receiving all client monies, and making payments for services on behalf of the clients. The RCEB is also responsible for maintaining accurate records of the income, expenses, and account balances of these clients. However, it cannot provide accurate balances of client accounts because it has not posted all transactions to the clients' accounts. For example, for the month of March 1987, the RCEB failed to post all client income to its records of client accounts. The RCEB deposited clients' checks, amounting to $129,000, in the bank account that it maintains jointly for all clients, but it did not credit the individual client accounts with those deposits. As

of November 1987, the joint bank account, which should be equal to the sum of all the individual client accounts, showed $143,579 less than the total of all the client accounts.

The department also conducted a special review of the RCEB in November 1987. Although this review was limited, the department concluded that the RCEB experienced "inadequate administration throughout the entire fiscal/accounting process." As a result of the problems identified at the RCEB, the board of directors hired a chief financial officer in November 1987. At about the same time, the board also hired a new executive director. The RCEB is also developing a plan of corrective action for the department's approval.

Regional Centers Reviewed by the Department

Between 1985 and 1987, the department identified another three regional centers with fiscal management problems serious enough to result in special requirements in its contracts with the centers, loss of the contract, or department staff's assuming temporary control of a center's operation.

In February 1987, the department conducted a special review of the South Central Los Angeles Regional Center (SCLARC). The review revealed serious deficiencies in fiscal management that resulted from internal control weaknesses, poor management of client monies, and management's lack of awareness of fiscal problems. The department

reported that it found six general ledger accounts with questionable balances that distorted the reliability of the center's accounting records. For example, the "cash in bank-checking general ledger account" had a balance of $1,489,077, but a subsidiary report had a balance of $1,657,799, a difference of $168,722. Also, the accounts payable balance showed that the SCLARC owed $439,795, but it had no supporting accrued-but-unpaid invoices.

As a result of these fiscal management problems, the SCLARC's top management resigned or was fired, and department staff assumed the vacated management positions for approximately four months. Additionally, the department included special requirements in the next contract with the SCLARC. The department stated that these problems were not new but were the result of long-term management and systemic problems. The department also noted that the mismanagement of client and state monies caused monetary loss for both the clients and the State.

The department identified another regional center with severe fiscal management problems in March 1985 when it conducted a special review of the San Gabriel Valley Regional Center (SGVRC). The review revealed that the center's fiscal operations were disorganized and without adequate controls and that the lack of accountability precluded both the regional center and the department from assessing the true financial condition of the regional center.

For example, the department reported serious problems in the overall accountability of the SGVRC's operations. Normally, asset accounts should have debit balances, and liability accounts should have credit balances. However, the trial balance, which summarizes transactions made in each account, showed that some asset accounts had credit balances and some liability accounts had debit balances. Also, as of the department's review on March 5-6, 1985, the SGVRC had not prepared a bank reconciliation of its operating fund since September 1983 and had not reconciled its client fund bank account since October 1983. Furthermore, the department stated that the SGVRC did not enter handwritten checks from client trust into the automated accounting system.

The department attributed the fiscal management problems at the SGVRC in 1985 to a lack of leadership by the regional center's board of directors and to inexperience of the staff. As a result of the severity of the SGVRC's problems, the department decided that it would not renew the regional center's contract. The department subsequently offered the contract for the San Gabriel Valley to another agency.

In February 1985, the department conducted a special review of the San Andreas Regional Center (SARC) that revealed weak internal management controls and documentation maintenance. In addition, the department reported that the SARC did not consistently enter manual transactions such as manual checks and other nonrecurring transactions

into the automated accounting system. For example, the August 1984 bank statement contained a debt memo for $395,256.09. This amount was reflected in the "manual cash journal" but not in the records of the automated accounting system. At the time of the department's review in February 1985, the SARC had not performed bank reconciliations for the operating fund since August 1984 and for the client trust fund since April 1984.

As a result of the problems identified at the SARC in 1985, the department, at the request of the SARC board of directors, assumed temporary management of the SARC from March through July 1985, and the board of directors replaced some of the center's top management. Further, the department included special requirements in the center's following annual contracts.

Regional Centers Reviewed
by the Department of Finance

In a review of regional centers conducted in 1987, the Department of Finance (DOF) also determined that some regional centers were having fiscal management problems. The DOF reported that, although two of three centers that it visited had adequate systems of internal controls, the third center, the Alta California Regional Center (ACRC), had serious fiscal management weaknesses. The DOF conducted its review of the ACRC during February and March 1987. Although the problems identified at the ACRC were not as severe as those at the four centers previously mentioned in this report, the DOF

concluded that the ACRC had "serious deficiencies" in internal controls, including, for example, inadequate separation of duties over cash receipts and disbursements. The DOF noted that five ACRC employees could approve manual checks, had access to blank check stock, and could write checks. The employee who deposited cash also had access to all blank check stock and approved and prepared checks. In addition, the DOF noted that the ACRC did not maintain a log to control check stock and did not list the written checks numerically in a check log, resulting in a lack of accountability for checks and check stock. Further, significant weaknesses existed in the ACRC's controls over access to the EDP system. For example, all accounting employees at the ACRC who knew the common password and the name of the employee who maintained the security file had access to the computer programs and files.

In addition to the five regional centers that this report identifies as having serious fiscal management weaknesses, other regional centers are having fiscal management problems also. In its 1987 review of regional centers, the DOF mailed questionnaires to the regional centers that it did not visit. Fourteen of these regional centers responded that they had problems in reconciling the general ledger accounts to the subsidiary ledgers for the client trust fund and for the fund for purchasing client services. Four regional centers had not reconciled the balance for either subsidiary ledger to the general ledger since June 1986, and one regional center had not reconciled the client trust fund balances to the general ledger accounts since

April 1986. Twelve regional centers had problems maintaining client accounts. And, at least five regional centers did not prepare bank reconciliations promptly because of difficulties in reconciling their bank statements with the general ledger.

Regional centers that lack adequate fiscal management controls cannot provide the required accountability for the millions of dollars that they receive from the State and from third-party sources for the clients. Consequently, the department cannot ensure that these regional centers are spending state and client monies efficiently and in accordance with intended purposes. Further, the lack of controls increases the regional centers' exposure to theft, fraud, and abuse. Although our limited review of the two regional centers that we visited did not identify large dollar amounts of improper expenditures, the frequency and variety of problems that we found indicate that the regional centers are vulnerable to losses of funds because of weak controls. Similar control weaknesses have resulted in large dollar losses in other state programs.

REGIONAL CENTERS NEED TO IMPROVE FISCAL CONTROLS TO MAKE THE MOST EFFICIENT USE OF STATE FUNDS

In addition to lacking adequate fiscal controls to ensure accountability and proper expenditure of state and client monies, some regional centers do not efficiently use state funds to purchase

services for clients. The Welfare and Institutions Code, Sections 4501 and 4659, states that regional centers should identify and pursue all sources of available state funds and other third-party benefit monies to provide services to clients. At least 6 of the 21 regional centers unnecessarily use state funds to pay for services for clients who also receive benefit monies from third-party sources to purchase these services. At least four regional centers fail to ensure that clients remain eligible for third-party benefits. As a result of these regional centers not properly managing third-party benefits, the State pays more for client services than necessary, and therefore, fewer state funds are available for additional client services.

Regional Centers Do Not Use All Benefit
Monies To Pay for Client Services

Section 4659 of the Welfare and Institutions Code states that any third-party benefit monies collected by a regional center shall be applied against the cost of the client's services before the regional center uses its state funds for those services. Most regional center clients qualify for such third-party benefits under the Supplemental Security Income/State Supplementary Program (SSI/SSP), and a significant number of clients qualify for social security benefits. Other sources of third-party benefits that clients may be eligible for include, among others, the Veterans Administration and the Railroad Retirement Board.

The SSI/SSP benefit checks consist of an amount for board and care and an amount for the client's personal and incidental (P&I) use. Currently, the typical SSI/SSP benefit check is $648; $76 of that amount is P&I money. During the period of our review, 1986 and 1987, the typical SSI/SSP benefit check was $601 in 1986 and $632 in 1987; the P&I amount included in the SSI/SSP benefit check was $70 in 1986 and $74 in 1987. Clients use the P&I portion to buy toys, candy, beauty supplies, entertainment, or anything else the client needs or wants that the care provider or regional center does not provide. While SSI/SSP benefits are restricted to use for board and care and P&I money only, benefits from other sources, such as the Teachers Retirement Fund and the Railroad Retirement Board, may also be used to purchase additional client services, including day programs or transportation.

The department has interpreted Section 4659 of the Welfare and Institutions Code to mean that regional centers must apply third-party benefit monies to costs for any service for the client, not just the cost of board and care. In July and December 1987, the department distributed to the regional centers policy statements instructing them to apply all client benefits from third-party sources to the cost of services.

Nevertheless, five of seven regional centers we contacted and at least one other center are not using all of a client's third-party benefits before using state funds to pay for that client's services.

Instead the regional centers use state funds to purchase client services and allow the third-party benefits to accumulate in the individual clients' accounts. If a client receives SSI/SSP and additional benefits, the regional center applies only the amount designated by the Social Security Administration (SSA) as the SSI board and care amount to the cost of services; the additional monies go into the client accounts. Similarly, if a client receives benefits only from the Railroad Retirement Board and not SSI/SSP, the regional center applies to the cost of services only an amount equal to the SSI board and care amount; any remaining monies go into the client account.

The following actual example illustrates the difference in cost to the State that results because regional centers do not apply all third-party benefits toward the cost of services as required by law. In this example, the client receives for one month $655 from the SSA and $400 from the Veterans Administration.

	The Regional Center Applies All Third-Party Benefits	The Regional Center Applies Only the Board and Care Amount
Cost of Services	$1,340	$1,340
Benefits Available to Purchase Services (less client's P&I monies)	959	959
Benefit Amount Applied	959	558
Cost to Regional Center	381	782
Amount Available for Client's Personal Use	96*	497**

*P&I

**P&I plus excess benefits

In the above example, the additional monthly cost to the regional center that results from not applying all third-party benefits is $401 for this client, or $4,812 annually in state funds.

The RCEB did not apply all of the benefit monies to the cost of services for each of the five clients that we reviewed. Over a two-year period, the RCEB could have applied $30,546 more to the cost of the services that these five clients received, rather than paying for the services with state funds. Instead, the RCEB allowed the $30,546 to accumulate in the client accounts.

We also reviewed the accounts of the 15 clients at the RCEB who received benefits from other sources in addition to SSI/SSP and SSA benefits. We found that the RCEB was not applying all of the benefit monies available towards the cost of services for 8 of the 15 clients. We reviewed each client account for the month of February 1988 and found that the RCEB should have used $2,317 more in benefit monies that the clients received from third parties rather than using state funds to pay for client services. Instead of applying the $2,317 to the cost of services, the RCEB allowed the money to accumulate in the client accounts.

The Developmental Disabilities Center (DDC) also does not always apply all of the available benefit monies towards the purchase of client services. In our review of 27 client accounts, usually for a six-month period, the DDC did not apply all of the benefit monies available towards the cost of services for 7 of the 27 clients; the remaining 20 clients did not receive other benefits in addition to SSI/SSP and SSA benefits or had not received benefits in excess of the standard board and care and P&I amounts. The DDC should have used approximately $2,500 more in benefit monies rather than using state funds to pay for client services for the 7 clients during the periods reviewed. For example, in the case of one client, the DDC did not apply a total of $905 of the third-party benefits to the cost of services in the six months that we reviewed.

We contacted five additional regional centers to determine whether they were applying all benefits received to the cost of services. We contacted the regional centers that are the representative payee to the largest number of clients, excluding the RCEB and the DDC, which we address above. At two of these regional centers, the staff stated that they apply all benefits, excluding the P&I portion, to the cost of services. However, the staff at the remaining three regional centers stated that they apply only an amount equal to the SSA's board and care amount to the cost of services. At these three regional centers, as at the RCEB and the DDC, excess client benefits are not applied toward client expenses such as the remaining costs of board and care or the cost of day programs and transportation.

Furthermore, at least one additional regional center is not applying all benefit monies to the cost of services. In 1987, the department discovered that the South Central Los Angeles Regional Center was not using all third-party benefits. In 10 of 12 client accounts reviewed by the department, the client accounts contained monies due to the department because the regional center had not applied all benefits received by clients to the cost of services.

Because regional centers are not applying all third-party benefits to the cost of client services, the State is paying for services that should be paid with the third-party benefits that the clients receive. Additionally, when the regional center is paying for services of clients who are able to pay for their services with other

benefit monies, the regional center has fewer funds to spend on services for other clients. Furthermore, clients are gaining for personal use money that should be paying for client services.

The employees at the RCEB are not applying all of the available benefits that they receive for clients to the cost of services because they are acting on RCEB procedure. The current fiscal management at the regional center could not explain why the procedure was established.

The DDC is not applying all of the client benefits received towards purchasing services because, according to the administrator, to do so would mean that the clients are unequally paying for services based on who the representative payee is. If all clients are to be treated equally and the regional centers are to apply all benefit income to the cost of services, the parent or guardian would have to submit any benefits in excess of the SSI board and care and P&I amount to the regional center for payment to providers. The administrator stated that collecting excess benefit income from the parent or guardian representative payee would be very difficult because the regional center does not know the amount of benefits that the client receives when the regional center is not the representative payee; moreover, under the Privacy Act of 1974, the regional center does not have the authority to ask for the information. Also, collecting the excess benefits would be difficult because the representative payee is not obligated to present the excess benefits to the regional center for

payment for client services; in fact, the regional center cannot accept the excess benefits until it gets a signed agreement from the client, parent, or legal representative.

The DDC administrator stated that the DDC is waiting for the department to resolve the issue of unequal treatment and to provide clearer direction before they apply excess benefits to the cost of services. According to this administrator, the directive to use all of the client benefits is unclear because it does not define what is client personal money and what can be applied towards services. For example, the administrator wants clarification on whether the interest earned by clients on benefits is personal money or whether it can be applied to the cost of services.

In response to our questions on this issue, the director of the department acknowledged that, although regional centers are statutorily required to identify and pursue all sources of funding, unless a regional center is the representative payee for the client, it does not have the authority to collect either the funds or the information that it needs to determine whether the funds are available. Similarly, according to the director, the department's authority is limited to reminding the regional centers of their responsibility to pursue all sources of funds and encouraging them to work with the other representative payees and family members to achieve an acceptable result.

Unnecessary and Uncollected Loans

As stated earlier, a regional center should use all of the third-party benefit monies that it receives each month on behalf of a client to pay for services that the client receives in the same month. If the amount that the regional center receives from a third-party source for a client in a particular month is less than the usual amount received for that client, or if the regional center does not receive the benefits before it needs to pay the client's provider, the regional center's computer system automatically advances state funds or "sets up a loan" for the client in the amount of the benefits expected. When the regional center receives the late check, it should repay itself, thus relieving the loan. When a benefit check received is less than the amount expected and the regional center later determines that the client's benefit amount has been decreased, the regional center should collect the amount that it received and write off the remainder of the loan.

We reviewed the accounts of 34 RCEB clients who had high account balances or multiple loan transactions and found that the RCEB had made loans to 32 of these clients to cover the purchase of client services. As of April 19, 1988, 11 of these 32 clients had 29 outstanding loans totaling $5,933. In reviewing the outstanding loans to these 11 clients, we determined that 22 of these loans totaling $5,074 were unnecessary; the amounts of these unnecessary loans ranged from $33 to $558. For each of these 11 clients, before the loans were

set up, the regional center had received the benefit income for the service periods that the loans covered. Instead of using the benefit income, the RCEB paid for the services with state funds and unnecessarily set up loans, leaving the $5,074 in benefit income in the client accounts. Since we only reviewed outstanding loans, we did not determine how many other unnecessary loans these clients had received that had already been repaid.

Furthermore, once the RCEB makes a loan, whether the loan is necessary or unnecessary, it does not monitor the client accounts to repay itself for the loans. For the 11 clients that we reviewed who had outstanding loans, $4,448, 75 percent of the total outstanding loan amount, was for loans that were at least six-months old; for each of these loans, the RCEB has received the third-party benefits for the service period that the loans were made to cover. For example, one client has an outstanding loan of $263 yet had received benefits of $592 for the time period that the loan covered. For the 11 accounts that we reviewed, rather than applying the benefits to relieve the loans, the regional center left the $4,448 in benefit income in the individual client accounts.

Additionally, the RCEB's records show that the regional center made loans to 543 clients from May 12, 1986, through April 7, 1988. As of April 1988, 211 (39 percent) of these clients had outstanding loans that were more than one-year old; the dollar value of these loans is

$128,298. In a review of the RCEB in November 1987, the department noted that the RCEB's outstanding loan balance is eight-to-ten times greater than the average for regional centers.

Because the RCEB is making unnecessary loans and not collecting repayment of the loans that it has made, the State is paying for services that should be paid for with third-party benefits that the clients receive. Also, because the regional center is making unnecessary loans and not collecting repayment for these loans, the regional center has fewer funds to spend on services for other clients. Furthermore, the client accounts earn interest on the monies held in those accounts instead of the State earning the interest.

The RCEB has unnecessarily made loans to clients and has not collected repayment for loans because, according to the chief financial officer of the RCEB, the RCEB employees responsible for the client accounts do not know how to perform the appropriate transactions and failed to post correct amounts to accounts even though they received training in this area. Additionally, RCEB staff members do not understand how to use the automated system for maintaining client accounts because manuals for the automated system were not made available to the staff members by prior RCEB management. As a result, the RCEB staff were not closely monitoring client accounts and performing maintenance on these accounts to ensure that the balances were accurate and that either the regional center was reimbursed for loans made to clients or the loans were written off.

Regional Centers Risk Losing Clients' Third-Party Benefits

At least four regional centers have not ensured that the individual client account balances do not exceed the amount that would disqualify the clients for SSI/SSP benefits. According to federal law, clients with accounts exceeding a set amount are not eligible to receive SSI/SSP benefits. Presently, the limit on the account balance for single individuals is $1,900, but throughout the period of our review, 1986 through 1987, the limit was $1,700 in 1986 and $1,800 in 1987.

One of the regional centers that we visited, the DDC, monitored the client account balances to ensure that clients remained eligible for SSI/SSP benefits. To prevent the accounts from exceeding the maximum allowed so that the clients can retain their SSI/SSP benefits, this regional center monitors client accounts. It also encourages clients to purchase items that they may need or enjoy like clothes, stereos, televisions, or outings.

The other regional center we visited, however, has not monitored the client accounts, and, as a result, many accounts exceed the maximum amount. According to the department, as of November 1, 1987, approximately 400 (85 percent) of the 473 client accounts maintained by the RCEB had balances exceeding $1,500. Sixty-five of the account balances exceeded $5,000. We estimate that

93 percent of the RCEB clients receive SSI/SSP and, therefore, would be at risk of losing their benefits if their accounts exceeded the limit placed by federal law.

At least three other regional centers also have not monitored the balances of client accounts. In 1985, the department discovered that the San Andreas Regional Center had 134 individual client accounts with balances in excess of the limit established by federal law. In May 1986, the Office of the Auditor General reported in "A Review of Allegations of Service Disruptions for Developmentally Disabled Clients of the San Gabriel Valley Regional Center, P-573," that 320 clients were in danger of losing their eligibility for SSI/SSP because the San Gabriel Valley Regional Center had allowed client accounts to exceed the limit established by the SSA. In 1987 the department determined that the balances of over 300 client accounts at the South Central Los Angeles Regional Center exceeded the federal limit, thereby jeopardizing the clients' continued eligibility for benefits.

When the regional center allows the client accounts to exceed the maximum designated by federal law, it risks losing the clients' benefits. When clients lose SSI/SSP benefits, the State must pay for more of the clients' care than when clients are receiving SSI/SSP benefits. Furthermore, the clients with high account balances may have to repay the SSA the amount of benefits incorrectly received in the past. For example, based on a client account balance as stated by the RCEB, one client could be required to repay the SSA up to $11,557

because the client received this amount in SSI/SSP benefits after his account exceeded the limit set by the SSA. However, because the RCEB has not maintained accurate client accounts and because some client accounts contain state funds, this client account balance is very likely incorrect and overstated. If the client account were corrected, the amount subject to repayment to the SSA could be significantly less than $11,557.

CONCLUSION

The quality of fiscal management varies among regional centers. Although some regional centers reviewed have been found to have adequate fiscal controls, other regional centers have poor controls over state and client assets. Since 1985, at least 5 (24 percent) of the 21 regional centers have been identified as having serious fiscal management deficiencies. Without adequate fiscal controls, the regional centers cannot ensure accountability for or proper expenditure of state and client funds. The frequency and variety of control weaknesses identified at regional centers indicate that the regional centers are vulnerable to large dollar losses. Similar weaknesses have resulted in large dollar losses in other state programs.

Additionally, at least seven regional centers do not ensure the most efficient use of state funds to provide client services. Regional centers inappropriately use state funds to purchase services for clients when clients receive monies for these services from third-party sources. Instead of using the third-party benefits to purchase client services, the regional centers allow these benefit monies to accumulate in individual client accounts. Because regional centers do not properly manage client benefits from third-party sources, the State pays more for client services than necessary, and therefore, fewer funds are available for additional services.

CHAPTER II

THE DEPARTMENT OF DEVELOPMENTAL SERVICES NEEDS TO IMPROVE ITS OVERSIGHT OF FISCAL OPERATIONS AT THE REGIONAL CENTERS

The department has not ensured that all regional centers properly account for or spend state funds for the developmentally disabled. Although the department is presently taking steps to improve its oversight of fiscal operations at the regional centers, the department discontinued fiscal audits of regional centers in 1985; at that time the department had conducted audits of fiscal operations at the regional centers through fiscal year 1982-83. In addition, although it has required the regional centers to submit independent audit reports on the centers' fiscal operations, the department has not followed up on the deficiencies identified in these reports. Also, the department has been slow to use the monitoring capabilities of the Uniform Fiscal System (UFS), an automated accounting system, to assess the condition of the regional centers' fiscal operations. Moreover, it has not provided the regional centers with sufficient technical assistance in using the UFS. Finally, the department has not ensured that all regional centers have proper inventory controls over state property. In the last three years, at least five regional centers have had serious fiscal management problems as described in Chapter I of this report.

The department is taking steps to improve its oversight of the regional centers' fiscal operations. Specifically, the department plans to resume on-site audits of the regional centers' fiscal operations by August 1988. Additionally, in March 1988, the department trained staff in its audit branch to use the UFS as a tool to monitor fiscal operations at the regional centers. In October 1987, the department also established a unit to provide the regional centers with technical assistance in using the UFS. In November 1987, it provided select regional center staff with additional training in the maintenance of client accounts. Finally, since fiscal year 1986-87, the department has included in its annual contracts with the regional centers provisions to increase the centers' accountability for state funds.

THE DEPARTMENT HAS PROVIDED ONLY LIMITED OVERSIGHT OF FISCAL OPERATIONS AT REGIONAL CENTERS

Section 4631 of the Welfare and Institutions Code states that the department's contract with regional centers shall require strict accountability for and reporting of all revenues and expenditures of regional centers. Section 4780.5 of the Welfare and Institutions Code also makes the department responsible for auditing funds made available to regional centers through the Lanterman Developmental Disabilities Services Act.

Problems With Fiscal Audits of Regional Centers

The department has not conducted fiscal audits of regional centers since fiscal year 1982-83 although it has conducted special reviews at 4 (19 percent) of the 21 regional centers in response to specific problems arising at those centers. For example, the department decided to conduct a special review of the South Central Los Angeles Regional Center after the department became aware of other problems at the regional center including client deaths occurring in 1985 and 1986, an arrest in 1986 of one of the center's case managers, and problems identified in the department's 1986 reviews of the center's services to clients. The other three regional centers reviewed by the department were the San Gabriel Valley Regional Center, the San Andreas Regional Center, and the Regional Center of the East Bay.

Until 1985, the department's policy was to conduct a yearly fiscal audit of each regional center to review the center's accounting and internal control systems. However, as we reported in an earlier report entitled "The State Department of Developmental Services' Administration of the Program for the Developmentally Disabled Needs Improvement," Report P-007, June 1981, the department was not prompt in conducting fiscal audits of regional centers. When the department was established in July 1978, it assumed a two-year backlog of regional center audits, and it had been unable to reduce that backlog as of

June 1981 primarily because personnel responsible for auditing were also assigned other projects, and the audit section had been understaffed.

When the department discontinued its annual fiscal audits in 1985, it had performed these audits of regional centers through fiscal year 1982-83. The department discontinued routine fiscal audits, in part, because it had a backlog of fiscal audits. Additionally, the department was dissatisfied with the audit program that it was using at that time and wanted to design a more comprehensive format. Also, the department required the regional centers to begin using the UFS in 1984 and decided to allow the regional centers time to adjust to the new system before it conducted further fiscal audits.

In place of the annual fiscal audits by the department, in the department's 1985-86 contracts with the regional centers, the department began requiring annual audits of regional centers by independent accounting firms. The department first required these audit reports for fiscal year 1984-85. The contract specifies only that the scope of the audits is to prepare audited financial statements.

As of April 1, 1988, the department should have received the independent audit reports for fiscal year 1986-87; however, it has yet to follow up on internal control and fiscal management weaknesses

reported in the audit reports for fiscal years 1984-85 and 1985-86. Although the department's audit branch has reviewed the audit reports for fiscal years 1984-85 and 1985-86, it has not conducted any on-site follow-up to ensure that the regional centers have corrected the deficiencies identified in the audit reports. For example, the independent audit report submitted by one regional center for fiscal year 1985-86 noted, among other things, that the center's internal controls were limited, separation of duties was lacking, and accounting personnel did not understand some accounts. Yet the department's audit branch has not conducted a fiscal audit at this regional center to ensure that the deficiencies were corrected.

The department has not followed up on deficiencies identified in the independent audit reports because, according to the department's assistant director for the Program Assessment Division, the department believes these reports to be indicators of only potential problems and is waiting until it conducts on-site fiscal audits of the regional centers to verify the reported deficiencies. The department expects to begin on-site reviews of regional centers in August 1988.

Another problem in the current use of the independent audit reports for monitoring regional centers is that the reports do not always include an evaluation of the regional centers' accounting and internal control systems. Only four (50 percent) of eight regional centers' audit reports for fiscal year 1985-86 included a statement

evaluating the regional centers' internal controls. Without this information, the department cannot ensure that the regional centers have adequate controls to manage the millions of dollars that they administer for the State and their clients. Further, the independent audit firms use widely varying levels of detail in the reports, and items within the financial statement categories are not uniform. Consequently, the department's audit branch staff must spend a significant amount of time just determining what is included in each of the audit reports.

UFS Not Used To Monitor Regional Centers

The department has been slow to use the monitoring capabilities that it has through the UFS, the automated accounting system used by the regional centers, to assess the fiscal operations of the regional centers. The UFS was developed in response to legislation in 1977 that required uniform and consistent services, funding, and administrative practices in the regional centers throughout the State. Furthermore, the legislation states that the department shall adopt regulations prescribing a systematic approach to administrative practices and procedures and a uniform accounting system, budgeting and encumbrancing system, and reporting system.

The department contracted with a consulting firm to develop and install the UFS to perform the functions required by the legislation. In 1984, the consulting firm installed most of the system, and in July 1986, the consulting firm installed the portion of the system pertaining to the maintenance of client accounts. At least monthly, the regional centers transmit to the department an update of certain records from the regional centers' automated accounting system.

Since the department has had access to the automated records, it has had the capability to review the financial reports of the regional centers. The department could review the account balances of client accounts, the number and age of outstanding loans to clients, whether regional centers apply all benefits received to the cost of services provided to clients, and the status of operation fund accounts. The automated records also offer other measures that would indicate the regional centers' performance. For example, the department could compare subsidiary account totals to control account totals to identify potential problems. The department could also periodically generate a Client Status Listing report for each regional center and review it to ensure that the regional centers are maintaining the balances in their client accounts below the limit that would disqualify clients for benefits from the Social Security Administration. Reviewing these reports would indicate to the audit branch which regional centers might be having fiscal management problems or problems using the UFS and would, therefore, need additional review or assistance. However, the department did not train

audit branch employees to use the UFS for monitoring purposes until March 1988. As a result, the audit branch, which is responsible for conducting fiscal and compliance audits of regional centers and their service providers, did not use the UFS for routine monitoring of regional centers until after March 1988.

Limited Oversight Results in a Lack of Fiscal Accountability and Increased State Costs

Because the department has neither conducted its own reviews of fiscal operations at the regional centers nor responded to their independent audits, the department cannot ensure that the regional centers have adequate controls to provide fiscal accountability, nor can it ensure that they use state and client funds efficiently and appropriately. And, as described in Chapter I of this report, in the last three years, at least 5 of the 21 regional centers have had serious fiscal management problems. By increasing its oversight of the regional centers, the department could decrease the extent of these fiscal management deficiencies.

For example, as noted in Chapter I, our current review shows that the RCEB has been seriously deficient in its management of client accounts. The RCEB's previous problems in this area were serious enough that, in 1985, the department had to contract with an independent consulting firm to perform work on the RCEB's client accounts. However, the department did not provide continued oversight

of the center's operations to ensure that the RCEB was correcting its previous problems. The department did not uncover the continuing problems with the client accounts until November 1987 when it performed a special fiscal review of portions of the RCEB's operations.

Similarly, as noted in Chapter I, in February 1987, the department found fiscal management deficiencies at the South Central Los Angeles Regional Center (SCLARC) severe enough to result in the firing or resignation of the center's top managers and their temporary replacement with department staff. The department had found similar internal control deficiencies at SCLARC in November 1982 and October 1980 but had not ensured that the internal control and accounting deficiencies were corrected.

Fiscal management weaknesses in the regional centers have also resulted in increased costs to the State. For example, at least six regional centers do not use all client benefits from third-party sources to pay for client services before using state funds to pay for these services, as required by law. We reviewed the files of five clients at the RCEB for a two-year period and determined that the RCEB unnecessarily used $30,546 in state funds to purchase services for these clients. Instead of using the third-party benefits that the clients received to pay for these services, the RCEB allowed benefits totaling $30,546 to accumulate in the client accounts. This is the type of error that the department could detect if it reviewed regional centers' operations. For example, in its 1987 review of the fiscal

operations of the South Central Los Angeles Regional Center, the department reported that, in 10 of 12 client accounts reviewed, the accounts contained monies due to the State because the regional center had used state funds to purchase client services instead of first applying all of the benefits received by clients to the cost of those services.

Corrective Actions Taken by the Department

Although the department has provided only limited oversight of the fiscal operations of regional centers, the department has recently taken steps to improve its oversight. The department is developing a systematic approach to resume its auditing of the regional centers' fiscal operations. According to the department's plan, the audit branch of the department will perform preliminary assessments of each regional center's financial data, taken from the automated accounting system, to target problem areas before actually visiting the regional centers to perform audit work. In March 1988, the consulting firm contracted by the department trained the audit branch to use UFS as a tool to monitor the regional centers.

Based on these preliminary assessments, the department will select regional centers for further on-site review. The department plans to perform on-site fiscal audits at ten regional centers during fiscal year 1988-89 and estimates that it will begin these on-site reviews by August 1988.

In addition to planning to resume fiscal audits, the department has taken other steps to oversee fiscal operations at regional centers. Since fiscal year 1986-87, the department has included in its contract with regional centers a section outlining the methods of fiscal monitoring that the department will use to measure the regional centers' performance. One of these methods is the Sufficiency of Allocation Report (SOAR) process. Annually, the regional centers are required to submit to the department a report that details their current financial status and projects whether their budget for client services is sufficient to meet their needs for the remainder of the fiscal year.

Another method of review specified in the contract is the joint analysis review. Through this process, department staff and directors from other regional centers review and analyze the SOAR's submitted by their peers and comment on the appropriateness of funding requests.

Finally, in October 1987, the department developed the UFS information unit to provide regional centers with technical assistance in using the UFS. The UFS information unit will regularly review the automated financial reports of each regional center to determine the UFS-related training needs at each of the regional centers and the problem areas common to all regional centers. The UFS information unit will train the regional center staff to use the UFS and assess their own performance.

The Need for Improved Oversight of the Regional Centers' Inventory Controls

All equipment purchased by the regional centers belongs to the State. The department requires regional centers to report to the department all equipment with a life expectancy of two years or more and a value of $150 or more at the time of purchase. Although the State Administrative Manual requires the department to conduct annual physical inventories of state equipment, the department obtained permission from the Department of Finance for regional center staff to conduct the physical inventories. In October 1986, the department announced in a memorandum to the regional centers that it would be conducting physical inventories of the regional centers every three years. During the two years when the department does not conduct an inventory, each regional center is to conduct its own physical inventory of equipment with purchase prices of $500 or over and send the department a complete list of the inventory.

During fiscal year 1986-87, staff from the department's Business Services Section scheduled physical inventories at seven regional centers. The Business Services Section sent inventory lists to the other 14 regional centers asking them to conduct physical inventories and return the updated inventory lists to the department. Eight regional centers did not return the inventory lists; however, the department did not follow up with these regional centers to ensure that they did conduct physical inventories and that state property was

safeguarded. The department had not scheduled physical inventories at three of these eight regional centers for approximately four years.

In addition to not following up to ensure that the regional centers conduct the required inventories, the department does not follow up when the inventory that it conducts at a regional center reveals problems. The department's property inspector stated that his goal is to locate approximately 97 percent of the items on his inventory list at a center. Yet when he locates significantly less than this, he does not follow up to ensure that the regional center improves its inventory controls. For example, in 1984, the department conducted a physical inventory at the RCEB and did not find 111 (23.6 percent) of the 470 items on the inventory list, including a typewriter valued at $824 at the time of purchase in 1977 and a wheelchair valued at $2,023 in 1977. Despite finding only 76.4 percent of the items on the inventory list, the department did not follow up to ensure that the RCEB had located the missing items or improved its inventory controls. Moreover, the department did not conduct another inventory at the RCEB until May 1988.

According to the assistant deputy director of the department's Employment and Support Services Branch, department staff from the Business Services Section discuss with regional center staff the inventory problems that it finds. However, the chief of the Business Services Section stated that her section does not report the deficiencies found to the department's management or to the

department's Community Services Division, which is responsible for developing policies and procedures for the operation of the regional centers and ensuring that regional centers are accountable for expenditures. Because of this lack of follow-up, the department cannot ensure that the regional centers correct their inventory control deficiencies until the department's next scheduled inventory three years later.

We previously reported similar deficiencies in the department's oversight of regional centers' inventory controls. In June 1981, we reported that, because the department had not monitored regional centers, it could not account for all state-owned equipment.

At the end of fiscal year 1986-87, the 21 regional centers reported a total of approximately $6 million in property valued at $150 or more. If the department does not ensure that regional centers have adequate inventory controls, state property may be lost. Moreover, the State will not have accurate records of its assets. For example, we found that the RCEB had not reported to the department 12 (52.2 percent) of 23 items of equipment that should have been reported; these 12 items had a total value of $79,718. In addition, we could not verify the existence of 22 (69 percent) of the 32 items that we tried to locate at the RCEB.

According to the assistant deputy director of the department's Employment and Support Services branch, the department did not follow up with the regional centers that did not return an updated inventory list because the Business Services Section had not yet compiled a complete list of property custodians at the regional centers. Further, according to the assistant deputy director, the department's property inspector had insufficient staff to assist with his workload.

The assistant deputy director of the Employment and Support Services branch stated in May 1988 that the department is taking corrective action to ensure that the regional centers conduct physical inventories during years when the department does not conduct physical inventories. These procedures include the following: maintaining a current property custodian list; telephoning property custodians at the regional centers to emphasize the importance of their taking physical inventories; providing technical assistance to the property custodians at the regional centers as needed; and monitoring regional centers until all property custodians have returned the updated inventory lists.

Insufficient Assistance
in Using the UFS

In addition to not using the UFS to monitor the regional centers, the department has not sufficiently assisted the regional centers in their use of the UFS. As is indicated in Chapter I, the regional centers are having problems using the UFS, indicating that

they need to know more about the UFS to use the system correctly. The department acknowledged in April 1988 that regional centers still need additional training and manuals to use the UFS effectively.

However, the department has been slow in providing the regional centers with adequate instruction manuals for operating the UFS. The consulting firm that developed the system provided the regional centers with a set of manuals in 1984. The manuals are not, however, sufficiently detailed to provide regional centers with enough guidance on the maintenance of the UFS. The Department of Finance (DOF), in a report on the use of the UFS, stated that seven regional centers developed their own complete sets of manuals, and eight developed a partial set of manuals. The department plans to develop ten manuals corresponding to the ten UFS modules. The department has written four operating manuals but, to date, has distributed only one manual to the regional centers even though the regional centers have been using the UFS since 1984.

Additionally, the department has not adequately assisted the regional centers in their implementation of internal controls for the UFS. The department acknowledged that the internal control procedures described in the operations and fiscal manuals, which the department issued to the regional centers, are incomplete. For example, these manuals do not provide direction on the security measures that the regional centers should implement to limit access to the information in

the UFS. While reviewing the UFS system at the Alta California Regional Center (ACRC), the DOF found that the ACRC had not implemented necessary controls over access to the UFS. Employees at the ACRC were using the same password and the employees' own names as the user identification. Also, ACRC did not change passwords when employees left the regional center. As a result of this lack of control, anyone who knew the common password and the name of the employee who maintained the security file had access to the computer programs and files.

Finally, the department needs to provide more support and on-site technical assistance to staff at the regional centers as they use the UFS, particularly because of the complexity of the system. In 1984, the department established the "Help Desk" to assist the regional centers when they have a question or problem related to the UFS. The regional centers can telephone department staff for assistance in using the UFS. However, one of the regional centers that we visited indicated that it was not able to get adequate technical assistance when it experienced problems using the UFS. In addition, the DOF reported that the department does not always respond to the regional centers' requests for assistance. The DOF, in its report on the UFS, also noted that the department is not able to make some programming changes to the UFS that are considered "essential" and does not quickly disseminate information to the regional centers regarding system problems as they are discovered. The department agreed that it needs to increase its support to the regional centers in using the UFS. The

department stated in its response to the DOF that the formation of the UFS information unit in conjunction with the UFS support section, which employs the department's technical personnel, will provide support for the regional centers in using the UFS.

The UFS information unit has recently begun assessing the abilities of each regional center in using the UFS. After completing the assessment, the UFS information unit will determine the training needs for the regional centers individually and as a whole. Further, in November 1987, the department conducted training for select regional center staff that included instruction on the responsibilities of the regional center to the client when the regional center is the representative payee for the client. Additionally, the UFS information unit has conducted training sessions in maintaining client accounts. According to the department's response to the DOF report, the UFS information unit will conduct additional sessions as it identifies specific needs.

CONCLUSION

The Department of Developmental Services has not ensured that all regional centers properly account for all revenues and expenditures or that all expenditures have been appropriate. Specifically, the department has not conducted fiscal audits of the regional centers since fiscal year 1982-83. It discontinued these audits in 1985 because it had a significant

backlog of fiscal audits and was dissatisfied with the audit program that it was using at that time. Additionally, the department wanted to allow regional centers time to adjust to the automated accounting system that was installed in 1984.

The department also has not followed up on internal control and fiscal management deficiencies reported in the independent audit reports submitted by the regional centers because it believes these to be indicators of only potential problems. It is waiting until it can conduct on-site fiscal audits of regional centers to verify the reported deficiencies.

Furthermore, the department has been slow to use the Uniform Fiscal System for routine monitoring of the regional centers' fiscal reports, and it has not ensured that the regional centers can effectively use the UFS to record all accounting transactions.

Finally, the department has not ensured that all regional centers have adequate controls over state property at the regional centers.

The department is taking steps to improve its oversight of fiscal operations at the regional centers. The department plans to resume on-site fiscal audits of the regional centers and to use the UFS to regularly evaluate the regional centers'

fiscal reports. Additionally, in October 1987, the department established a unit for assisting the regional centers to operate the UFS effectively. The department has also recently provided additional training for select regional center staff on managing client accounts.

RECOMMENDATIONS

To improve the fiscal accountability of the regional centers, the Department of Developmental Services should take the following actions:

- Expand the scope of the independent audits that it requires regional centers to submit. The independent audit reports should include a statement on the condition of the regional centers' internal controls, and they should include all findings and management letters;

- Promptly follow up on the deficiencies identified in the independent audit reports submitted by the regional centers. The department's audit branch should refer information on any deficiencies reported to the Community Services Division so that division can ensure that the regional centers correct the deficiencies. Additionally, the audit branch should use the independent audit reports in determining which regional centers need additional review;

- Implement its planned program of oversight activities as soon as possible. These activities should include regular review of the regional centers' fiscal reports available through the Uniform Fiscal System. When these reports indicate potential fiscal management problems at the regional centers, the department should promptly respond to assist the regional centers; and

- Ensure that the regional centers implement corrective actions to resolve deficiencies identified in Chapter I of this report, including the following:

    - Correctly use the UFS to record all transactions to the regional center accounts and client accounts;

    - Administer client benefit monies from third parties in a manner that allows maximum use of these monies for client services;

    - Apply the full amount of benefits that clients receive from third-party sources towards the cost of providing services to clients;

    - Establish controls to ensure that state funds are loaned to clients only when necessary and loans are repaid when client benefit monies are available;

- Ensure that the State is reimbursed for all funds inappropriately loaned to clients; and

- Monitor individual client accounts to ensure that the balances do not exceed the limit that would jeopardize the client's eligibility for benefits from the Social Security Administration.

Additionally, the department should address the regional centers' concerns related to applying all third-party benefits towards the cost of client services, as required by Section 4659 of the Welfare and Institutions Code. The department should specifically identify and seek to remove any legal and practical limitations on the regional centers in collecting excess third-party benefits of clients for whom the regional center is not the representative payee. To do so, the department may need to resolve the issue of unequal treatment of clients, wherein some clients may keep their excess third-party benefits while others would not. If necessary, the department should request an opinion from the Office of the Attorney General specifying the regional centers' legal authority to determine whether a client receives excess third-party benefits and to collect the excess benefits when the regional center is not the representative payee. The department should determine whether additional legislation is required to provide the regional centers with

the mechanism to comply with Section 4659 of the Welfare and Institutions Code, as well as to ensure equal treatment of clients.

To improve its oversight of the regional centers' inventory controls, the department should do the following:

- Ensure that regional centers perform their own physical inventories during the years in which the department does not perform physical inventories at the regional centers;

- Follow up when a physical inventory does not satisfy the department that regional centers are promptly correcting deficiencies noted and implementing adequate inventory controls; and

- Report to the Community Services Division when it finds that the regional centers' inventory controls are insufficient to safeguard state property.

To ensure that the regional centers can use the UFS effectively, the department should take the following steps:

- Provide the regional centers with the remaining nine UFS operating manuals as soon as possible;

- Provide the regional centers with additional instruction and training on the internal controls necessary for the UFS; and

- Provide regional centers with sufficient technical assistance to ensure that they are able to effectively operate the UFS.

CHAPTER III

SPECIFIC FINDINGS AT THE REGIONAL CENTER OF THE EAST BAY AND THE DEVELOPMENTAL DISABILITIES CENTER

For fiscal year 1986-87, the State provided the Regional Center of the East Bay (RCEB) with approximately $26.2 million to serve approximately 5,800 clients. The RCEB lacked controls to properly manage state and client funds during fiscal year 1986-87, increasing the possibility of theft, fraud, and abuse. The RCEB also failed to use all client benefit monies from third-party sources before using state funds to purchase services for clients. As a result, the State paid more for client services than necessary, and, therefore, fewer funds were available for additional client services. However, the RCEB has taken corrective action. It hired a new executive officer and a new chief fiscal officer in late 1987, and it reorganized its accounting section and is developing new procedures to improve controls over operations expenditures and client monies.

The Developmental Disabilities Center's (DDC) budget for 1986-87 was approximately $24.5 million for approximately 6,300 clients. Although the DDC properly controlled most disbursements for operations, it could improve its controls over travel and board of directors' expenses and over its management of consultant contracts. In addition, the DDC did not use all third-party benefits available to clients before using state funds to purchase client services.

Although both regional centers could improve controls over operations expenditures and use of client benefit monies, our review did not reveal significant deficiencies in either the RCEB's or the DDC's administrative controls over disbursements to purchase client services.

THE RCEB DID NOT HAVE PROPER FISCAL CONTROLS OVER OPERATING EXPENDITURES

Throughout fiscal year 1986-87, the RCEB did not have proper controls over its disbursements for operating expenses. The department allocated $6.7 million to the RCEB for operating expenses for fiscal year 1986-87. Our review of disbursements was limited because the RCEB did not record all disbursements made in fiscal year 1986-87. We could review only those disbursements that the RCEB had recorded in its accounting records. Further, we reviewed relatively small samples. Although our review did not identify large dollar amounts of improper expenditures, the frequency and variety of weaknesses that we found indicate that the regional center is vulnerable to larger losses of funds because of weak controls. Similar control weaknesses have resulted in large dollar losses in other state programs.

Recording Disbursements
and Controlling Check Stock

The RCEB did not record all disbursements made in fiscal year 1986-87 into its manual accounting records or into its automated accounting system. The department's contract with the RCEB requires strict accountability and reporting of revenues and expenditures. We reviewed 72 cancelled checks from this year to determine whether the disbursements were properly recorded in the regional center's accounting records. For 10 (14 percent) of the 72 cancelled checks reviewed for fiscal year 1986-87, the RCEB had not entered journal entry numbers into the RCEB check register. Therefore, the RCEB cannot determine whether it entered these disbursements into its accounting records, or, if it did, to which accounts it charged the 10 checks, which total $37,272. The RCEB's staff wrote 9 of these 10 checks by hand; the tenth check was generated by the computer system, which generates the majority of the RCEB's checks. Further, the RCEB's chief financial officer reported that their own subsequent investigation revealed that the RCEB did not record all disbursements in its accounting records.

In addition to not recording all disbursements in the accounting system, the RCEB did not properly control its blank check stock during fiscal year 1986-87. The department's Regional Centers Fiscal Manual (RCFM) states that the responsibility for physical custody of assets should be assigned to specific personnel who have no related recordkeeping duties, and appropriate physical precautions

should be maintained to safeguard assets. Good accounting controls also prescribe that the blank check stock be secured and controlled.

The RCEB stored its blank check stock for both computer-generated checks and handwritten checks in an unlocked area. All RCEB employees had access to the blank check stock. Employees needing to write manual checks would take a batch of checks and keep the unused checks for future use. This lack of control over the check stock sometimes resulted in the RCEB's not using checks in sequential order, some check numbers missing, and a loss of accountability for checks. According to the RCEB's chief financial officer, the RCEB cannot determine the number of checks written in fiscal year 1986-87.

Because the RCEB did not record all disbursements in the accounting system and did not control the blank check stock, it cannot account for all disbursements from fiscal year 1986-87. In addition, its financial statements and reports to the department may be inaccurate. Further, the RCEB increased its exposure to theft, fraud, and abuse.

The RCEB staff did not always record disbursements in the accounting records because, according to the current management at the RCEB, the former management lacked expertise and did not pay enough attention to the accounting department or ensure accountability among staff for specific duties. The overall lack of controls resulted from a lack of attention from the RCEB's prior top management. The

incidence of unrecorded disbursements in our sample indicates a control weakness that needs immediate attention from the RCEB.

Operating Expenses Not Always
<u>Documented or Approved</u>

The RCEB did not always document or approve operating expenses, including travel, miscellaneous, and board of directors' expenses, before payment. Of 35 of these types of expenses reviewed, 21 (60 percent), totaling $1,886, lacked proper documentation and/or approval. In fiscal year 1986-87, the RCEB spent a total of $82,834 for travel expenses, $6,320 for miscellaneous and general expenses, and $2,471 for board of directors' expenses, according to the trial balance. While the amount of undocumented expenses revealed by our review was small, the frequency of occurrence indicates that the RCEB needs to pay more attention to detail and documentation.

The RCEB staff did not follow its own or the department's policies when paying expenses without sufficient documentation or approval. The RCEB policy states that, before payment, the appropriate RCEB official must approve the expense by signing the travel claim, purchase invoice, or receipt. The department's RCFM also states that a person with knowledge that materials or services have been received should review and approve the invoice and indicate receipt on the invoice before payment. Although neither the RCEB's policies nor the department's fiscal manual have specific criteria for authorizing staff to incur these types of expenses, good internal controls require that

management approve expenses before staff incur them. The department's manual does state that each regional center should have a control system that includes authorization and recordkeeping procedures that will provide adequate control over assets, liabilities, revenues, and expenditures. In addition, the department's contract with the RCEB states that the regional center shall establish and maintain procedures that assure the department that reimbursements to regional center employees and board members for necessary travel and per diem are equitable, reasonable, and properly documented.

In our review of 20 of the 1,015 travel expenses reported on the trial balance for fiscal year 1986-87, 9 (45 percent) did not have all of the documentation required by the RCEB to support the payments. For example, one employee reported "other" expenses totaling $21 but did not provide a receipt or description of these expenses on the travel claim. The total amount of these undocumented travel expenses in our sample, which the RCEB paid, is $580. In fiscal year 1986-87, the RCEB spent $82,834 for travel expenses according to the trial balance.

We also reviewed 6 out of 26 miscellaneous and general expenses listed for fiscal year 1986-87. For one of the six expenses, a liquor expense of $147, the RCEB had neither a receipt nor an invoice to support the amount of the expense. Further, of the six items reviewed, the RCEB could not provide documentation that it received three (50 percent) items, valued at $699. Finally, the RCEB could not

provide evidence that an appropriate RCEB official had approved four of the six expenses before payment. These four expenses totaled $650. According to the trial balance, the RCEB spent $6,320 for miscellaneous and general expenses in fiscal year 1986-87.

Our review of 9 of the 30 expenses for the RCEB's board of directors for this year also shows that the RCEB did not always properly approve or document all of these expenses. The nine expenses include one catering expense, one conference registration expense, and seven travel claims for one board member. Although the RCEB had a receipt for the catering expense, the appropriate RCEB official had not approved the catering expense, valued at $56, before payment. Of the board member's seven travel claims that we reviewed, six did not contain documentation for claimed expenses such as child care, lodging, and transportation. For example, one claim did not contain a receipt for airfare recorded on the travel claim at $138. The board member who submitted the travel claims provided us with documentation for all six of the claims. However, the RCEB officials did not have this documentation for review before reimbursing the board member for her expenses, which amounted to $640 for the six claims. In fiscal year 1986-87, the RCEB spent $2,471 for board of directors' expenses.

Because the RCEB did not always properly document or approve operating expenses such as travel expenses, miscellaneous and general expenses, and board of directors' expenses, the RCEB cannot be sure

that the expenses were appropriate or authorized, that it has received all of the items purchased, or that it paid the correct amount for the services or merchandise purchased.

According to the current executive director, the RCEB failed to document expenses properly because of staff error. Additionally, the prior management did not enforce the requirement for submitting receipts for expenses of the board of directors. Further, the current executive director stated that the former executive director instructed the RCEB staff to pay all board of directors' expenses even though the expenses may not be supported by receipts.

Travel Reimbursement Policies
Inconsistently Applied

The RCEB's problems concerning the lack of control over operating expenses also include inconsistent application of the RCEB policies regarding travel expenses. The RCEB policy states that, for a travel period of less than 24 hours after a 24-hour stay (such as the last day of travel when the employee will not be staying another night), the employee may claim actual expenses for meals and incidentals up to $26 per day, with receipts.

However, the director of administration approved employees' travel claims for meal expenses without the required receipts when the last day of travel was less than 24 hours. The RCEB incorrectly paid

the employees for meal and incidental expenses for the last day of travel for 4 (44 percent) of the 9 travel claims that included costs for trips in excess of 24 hours.

Because the RCEB has incorrectly applied its travel policies, some employees have been reimbursed for expenses for which they should not have been reimbursed. The RCEB incorrectly reimbursed three employees for a total of five days of travel. These incorrect reimbursements amounted to $136. Although we did not determine how many travel claims the RCEB paid incorrectly, the RCEB made over 1,000 disbursements for travel in fiscal year 1986-87 and spent $82,834 for travel expenses, according to the trial balance.

Purchasing and Receiving Procedures

In 2 of 13 purchases of equipment or office supplies made during fiscal year 1986-87, the RCEB did not follow its own purchasing and receiving procedures and those of the department to provide controls over purchases and evidence that the items purchased were received. The RCEB's purchasing policy and the department's RCFM require the completion and approval of a serially numbered purchase order for each purchase. In addition, RCEB policy requires evidence on the invoice and receiving copy of the purchase order that the equipment was received and the invoice approved for payment.

Although the RCEB generally complied with the above policies, for two larger purchases, the RCEB bypassed its regular purchasing procedures. These two purchases were for telecommunications equipment totaling approximately $21,000. The RCEB did not fill out serially numbered purchase orders for the two purchases. Instead, the director of administration signed purchase contracts supplied by the company selling the equipment. Because it did not use purchase orders, the RCEB did not have purchasing documents with a description of the items purchased. But more importantly, it bypassed its standard procedure that would provide copies of the purchase orders as evidence that the items were received. Consequently, the RCEB had no documentation in its files indicating that it had received this equipment although the director of administration stated that he knew that the equipment had been received. During our fieldwork, we identified telephone equipment on site; however, we could not verify that this equipment was the equipment ordered because the RCEB had no lists of the serial numbers of the system's components.

Because the RCEB did not comply with the department's and the RCEB's purchasing and receiving policies, it cannot document that it received $21,000 worth of telecommunications equipment. Additionally, this lack of documentation results in incomplete data for inventory purposes. The RCEB's director of administration ordered the telecommunications equipment and did not follow regular purchasing procedures because he believed it was expedient to use purchase contracts instead.

The RCEB complied with its purchasing policies for the other 11 purchases in our sample. These eleven purchases included items such as calculators, furniture, office supplies, and computer equipment, with a total value of $66,118. The total amount reported on the trial balance for fiscal year 1986-87 for purchases of equipment and supplies was $132,724.

Insufficient Separation of
Employees' Duties

The department's RCFM states that duties should be separated between maintaining personnel files, timekeeping, preparing payroll checks, recording payroll checks, and distributing payroll checks. In addition, sound accounting controls dictate that an employee who is independent of the personnel department distribute the payroll checks. Further, authorization for signing the checks should be given to an employee who is not involved in timekeeping or in preparing and distributing the payroll. In addition, accounting controls dictate a separation of duties between the person preparing the payroll checks and the person reconciling the bank account.

We reviewed the RCEB's payroll for the bimonthly period ending June 15, 1987, and we reviewed payroll controls such as documentation for wages paid and appropriate timekeeping records for 23 of the RCEB's 119 employees. We also recalculated the payment amounts. Although we found no inappropriate payments, the RCEB did not properly separate duties for processing its payroll for fiscal year 1986-87. For

example, the personnel assistant maintained the personnel records, kept the master list of employees and their ranges of salaries, verified with the payroll clerk that the amounts on the checks were correct, signed the checks with the check-signing machine, and distributed checks to employees. In addition, the senior account clerk maintained the payroll journal and reconciled the bank accounts, and he prepared the payroll checks under the manual system in effect during our review period in fiscal year 1986-87. Although the RCEB now uses a computerized payroll service to produce its payroll checks instead of the manual system in effect during the period of our review, the duties of the personnel assistant and the senior account clerk have not changed, so the RCEB continues to have problems with separation of duties.

The RCEB also does not properly separate the duties of purchasing from those of maintaining the stockroom and controlling inventory. To safeguard assets, the department's RCFM requires a separation of duties in controls over a center's physical assets. Responsibility for physical custody of assets should be assigned to specific personnel who have no related recordkeeping duties or functions. The manual also requires adequate separation of duties within and between the purchasing, accounts payable, and receiving functions to the extent practicable. At the RCEB, however, the purchasing assistant prepares the purchase orders, receives the goods, approves the invoices for payment, maintains the stockroom containing supplies and equipment, and keeps the inventory records.

The lack of a separation of duties in these areas increases the RCEB's exposure to theft, fraud, and abuse. In addition, because we found problems with the RCEB's not following purchasing and receiving procedures and not adequately controlling its equipment, the lack of a separation of duties in the areas of purchasing, stockroom, and inventory controls is more serious.

According to the current management, the RCEB lacked sufficient separation of duties in these areas because the prior management lacked expertise and did not give enough attention to the separation of duties. In addition, specific staff were not accountable for specific duties.

Poor Controls Over
the State's Property

The RCEB has had poor inventory controls over the State's property, and it has not always reported the property that it purchased to the department. Further, for the items in our sample that it did report, the RCEB did not affix the required state identification tags to the items. Finally, the RCEB has not conducted its own inventory or maintained a property ledger or an automated equipment inventory.

The department's RCFM states that the regional center shall develop and maintain its own inventory procedures and controls to protect its property. In addition, the regional center shall develop controls for sensitive property, which is defined as any highly

desirable and portable items such as calculators, typewriters, and dictaphones. The records for controlling sensitive property should include the make, model, serial number, actual or approximate value, and any other distinguishing characteristics. Further, the department requires the centers to report equipment with a life expectancy of two or more years and a purchase price of $150 or more to the department and to put state identification tags on this equipment for inventory purposes. Finally, the RCFM requires the regional centers to maintain a property ledger for nonexpendable state property, which the RCFM defines as equipment and all other items of tangible property of a permanent nature with a normal useful life of at least four years and a unit acquisition cost of at least $500. The contract between the department and the RCEB for fiscal year 1986-87 also states that the contractor shall maintain an automated equipment inventory.

To assess the RCEB's controls over the State's equipment, we selected 32 items valued at approximately $84,675. From the trial balance entries, we selected 24 items that the RCEB had purchased in fiscal year 1986-87 for $150 and more or that fit the description of sensitive items; from the inventory listing of equipment reported to the department and from the purchase orders at the RCEB, we selected 8

items with purchase prices of $150 and more.[2] Although we could not determine the total dollar value of all of the items purchased for $150 or more in fiscal year 1986-87, the total dollar value of the 740 items listed on the department's inventory list for the RCEB as of December 1987 was $279,037. However, this amount was understated: we found that the RCEB does not consistently report items to the department. In addition, 238 of the 740 items on the department's inventory list for the RCEB have no dollar amounts recorded.

We tried to locate all 32 items in two ways: first, if the item had a serial number, we recorded the serial number from the appropriate purchase order and tried to match the serial number on the purchase order with the serial number on the item. Second, if the RCEB had reported the item to the department, the department had assigned the item an identification number. Therefore, we also searched for the items by their state identification numbers, which are on the tags that should be affixed to the equipment.

We could locate and verify the existence of only 9 (28 percent) of the 32 items in our sample. For example, we located a

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[2]The 24 items include a word-processing system purchased for approximately $56,000 and two telecommunications systems purchased for approximately $21,000. Although both the word-processing system and the telecommunications systems are composed of numerous parts, the RCEB did not have itemized lists with serial numbers for all the various components. Therefore, we counted the word-processing system as one item and the two telecommunications systems as two items in our sample.

memo transcriber valued at $197 because it had a serial number recorded on the purchase order. However, these 9 items were valued at only approximately $1,574 while the 22 (69 percent) items for which we could not verify existence were valued at approximately $83,010, 98 percent of the value of our sample.[3]

Although we could not verify the existence of these 22 items, we found items at the RCEB that resembled the description of the items in our sample. For example, our sample included three emergency transporters valued at $257 per transporter. We examined three emergency transporters at the RCEB; however, the RCEB had not affixed the state identification tags as required to the three transporters, and the transporters did not have serial numbers. Therefore, we could not verify that the three transporters that we examined were, in fact, the transporters in our sample. We also attempted to locate two file cabinets, both purchased for over $500 each. The RCEB staff showed us seven file cabinets that fit the description of the two file cabinets in our sample. Although two of the seven file cabinets had state identification tags affixed to them, these tags did not correspond to the numbers assigned to the two cabinets in our sample, and the file cabinets did not have serial numbers. Therefore, we could not verify that the two file cabinets in our sample were among those that we examined.

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[3]One item in our sample had been stolen. However, the staff person to whom it had been assigned paid the RCEB for the item.

According to the department's requirements, the RCEB should have reported 23 of the 32 items in our sample to the department.[4] These 23 items met the criteria of having purchase prices of $150 and over; however, the RCEB had not reported 12 (52.2 percent) of these 23 items to the department. These 12 unreported items include both the word-processing system and the two telecommunications systems, and they have a total value of $79,718, 96.7 percent of the total value of the items that should have been reported. Therefore, the department's list of equipment at the RCEB is understated by at least this amount.

In addition to the above inventory control deficiencies, the RCEB does not maintain an automated inventory as required by the contract with the department. Except for dictaphones that it assigns to staff, the RCEB also does not keep inventory records for sensitive equipment such as calculators and typewriters as required by the RCFM. Further, the RCEB does not take an annual inventory of the equipment in its offices. The department schedules a physical inventory at the regional centers approximately once every three years. It instructed the regional centers in October 1986 to take a physical inventory of state-owned equipment with purchase prices of $500 and more during the years that the department does not conduct an inventory. The regional

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[4]Actually, 26 items in our sample met the criteria that would require reporting to the department, but we selected three items for our sample from the department's inventory list. Therefore, we did not include these three items in our discussion of items that should have been reported to the department by the RCEB.

centers are then to report the results to the department. However, the RCEB has not complied with the department's instructions. Further, the RCEB does not reconcile its equipment accounts to a property ledger because it does not maintain a property ledger.

As a result of these conditions, the RCEB cannot ensure that it protects against or can detect loss or theft of state equipment. Further, the department's records of state-owned equipment at the RCEB are inaccurate. The current executive director of the RCEB attributed the RCEB's lack of inventory controls to inattention from prior management and to lack of expertise and accountability among staff.

Inaccurate Records of Advances to Care Providers

The RCEB's accounting records of advances to care providers were inaccurate, and the RCEB did not maintain an audit trail to support all of the entries. We reviewed advances to 5 of 19 providers listed as receiving advances on the trial balance for fiscal year 1986-87. According to the trial balance, at the end of fiscal year 1986-87, the RCEB had $214,953 in outstanding advances to one of these 5 providers. However, after we reviewed the supporting documentation for the transactions, the RCEB was able to provide evidence that all advances made to this provider in fiscal year 1986-87 had been cleared.

The RCEB will make cash advances to providers of client services, if necessary, for expenses when the providers first start business. In addition, the RCEB will advance money to a provider if the provider is having problems meeting financial obligations that threaten to suspend client services. The department's RCFM states that the regional centers may make advances to the providers for services to clients. To clear an advance, the provider sends the RCEB an invoice documenting its expenses for client services for the month. Then the RCEB issues a check to the provider for the difference between the advance and the amount charged on the invoice for the services provided to the clients.

For each provider, the RCEB keeps a file that includes documentary evidence of an advance made to the provider, the provider's subsequent invoice, and the check issued by the RCEB to pay the balance between the advance and the invoice. The documentation in these files should reconcile to the entries that the RCEB makes into the accounting records. However, in our review, the information located in the providers' files did not reconcile to the RCEB's accounting records. We reviewed 33 disbursements that the RCEB had listed as advances or advance-related disbursements to five providers on the trial balance for fiscal year 1986-87. Six of these disbursements, however, were not actually advances but were for services already received by clients. For example, for one provider, the trial balance lists three advances totaling $126,654 during the fiscal year. However, one of the three advances amounting to $9,950 was not an advance but was actually a

payment to the provider for client services already received. Therefore, the advances to this provider for fiscal year 1986-87 are overstated on the trial balance by $9,950. The six disbursements for services received that were incorrectly reported as advances to providers totaled $210,977.

Further, during our fieldwork, the files containing documentation for the advances and invoices were not complete for two of the five providers and therefore did not provide an audit trail to support the entries on the trial balance. For example, for one of the providers, we could not find check vouchers or other evidence in the provider's file to support two $25,000 advances. We were able to locate a copy of one of these two $25,000 check vouchers in unrelated files located in a storage cabinet; subsequently, the RCEB staff found the second voucher. However, the staff took four weeks after we had completed our fieldwork at this center to provide us with this documentation.

The RCEB does not have an accurate record of its advances to providers. Because it does not keep accurate records of advances and invoices for services to clients, it may lose money unless providers repay the advances voluntarily.

According to the current executive director, the RCEB staff did not accurately document or report advances because of staff incompetence and a lack of leadership from the former fiscal supervisor

and former top management. Further, according to the RCEB's chief financial officer, the accounting procedures approved by the prior RCEB fiscal manager did not provide for accurate information.

THE RCEB DOES NOT MAKE THE MOST EFFICIENT USE OF STATE FUNDS

As discussed in Chapter I of this report, the RCEB is not applying all client benefit monies from third-party sources to the cost of services, as required by law. Instead, the RCEB uses state funds to purchase services before it has first used all of the client benefit monies. For five clients that we reviewed over a two-year period, the RCEB should have used $30,546 in client third-party benefits rather than using state funds to purchase client services. Additionally, the RCEB is unnecessarily loaning state funds to clients to pay for services when the clients have third-party benefits to pay for services. Eleven client accounts that we reviewed had received unnecessary loans of state funds totaling $5,074. Also, the RCEB is not collecting repayment of loans made to the clients. The 11 clients that we reviewed had outstanding loans totaling $4,448 that were at least six months old, yet each client had received third-party benefit monies sufficient to repay the loans. Furthermore, the RCEB did not monitor the individual client accounts to ensure that they did not exceed the limit that makes clients ineligible for benefits from the Social Security Administration. (See pages 20 to 33 of this report for additional information about these conditions.)

Finally, the RCEB does not ensure that the clients receive the services for which it pays and does not ensure that it pays for the services that the clients receive. When regional centers do not apply all benefits and do not ensure that the clients receive all services being paid for, the regional centers unnecessarily use state funds that could be used to provide more services to clients.

Providers' Reports for Payment Not Monitored

Day program providers offer work or skill-learning activities to clients. According to the written agreement between the RCEB and the day program providers, the providers are to bill the regional center only for the days that the clients attend the program. Additionally, the regional centers are required by Section 44 of the contract between the department and the regional centers to randomly review the provider's attendance reporting.

The RCEB has not periodically reviewed day programs to ensure that the attendance reported for payment purposes agrees with the attendance records kept by the day program providers. At each of the five day programs that we visited, we compared, for either four or five clients, the attendance records maintained by the provider with the attendance reported to the regional center by the provider for monthly billing purposes. Each of the monthly attendance records for each client represents a client month.

The records at two of the five day programs that we visited indicated that, for a one-month period, six clients attended the day programs for a total of six days less than the providers had billed the regional center for. One of these two providers reported an extra day of attendance on the monthly invoice for each of five clients. The other provider reported an extra day of attendance for one client. Additionally, two providers reported a total of six fewer days than their attendance records indicated that the clients had actually attended the program. One provider reported five days fewer for one client, and another provider reported one day less for one client.

Based on the attendance records that we reviewed, the regional center has paid for services that providers have not rendered to clients and has not paid for services that providers did render to clients. Of the 86 client months in our review, day program providers billed the regional center for the wrong number of days for 8 client months (9 percent). The providers billed the regional center $199 for services that they did not provide to six clients for six days altogether. Additionally, the providers failed to bill the regional center $225 for services that they did provide to two clients for six days altogether.

The RCEB does not perform periodic reviews to compare the daily attendance records at the day programs with the number of days for which the day program provider bills the regional center. The RCEB does not perform these periodic reviews because, according to the

executive director, it does not have the resources to do so. The RCEB did perform a one-time review at some of the day programs in 1987, which included comparing attendance recorded at the day program with the attendance that the provider reported on the monthly invoices.

Furthermore, the department does not presently ensure that regional centers verify attendance reporting when the department reviews regional centers. Further, the department's plans for future monitoring of regional centers do not include verification of the attendance billed by day program providers.

THE RCEB DOES NOT HAVE ADEQUATE FISCAL CONTROLS TO ENSURE ACCURACY OF CLIENT ACCOUNTS

The RCEB does not have adequate fiscal controls to ensure that individual client accounts are accurate, nor has it allocated interest to client accounts properly. Also, the RCEB does not ensure that care providers at residential facilities maintain an accurate accounting of clients' personal and incidental (P&I) monies. As a result, the RCEB does not know how much money each client should have in his or her account. Further, some portion of the money in the clients' accounts belongs to the State, but, because the RCEB does not have accurate client balances, it cannot determine the portion that belongs to the State. Finally, some residential care providers are inappropriately managing clients' P&I monies.

Inaccurate Client Account Balances

The RCEB has not consistently made or posted the appropriate transactions in the individual client accounts in at least the past two years. The regional center maintains the client trust fund, which is the sum of all of the individual client accounts. The bank account representing the client trust fund in the bank and the sum of the individual client accounts should always match; however, in November of 1987, the department determined that the sum of the 473 individual client accounts and the client trust fund at the RCEB differed by $143,579, which was not accounted for by checks and deposits that were in transit between the regional center and the bank. The stated balance of the client trust fund was $1,587,482 at that time; however, this balance is incorrect based on our review and the department's review.

We reviewed for a two-year period the individual client accounts of 5 of the 473 clients for whom the RCEB was the representative payee. We compared copies of checks received for each of the clients and the documentation of disbursements made for each client with the ledger that the RCEB keeps for each client for whom it is representative payee. Each of the five accounts that we reviewed had inappropriate amounts posted or did not have all receipts or disbursements posted to the account. For example, we determined that one client account had a balance of $38,324. However, the RCEB's records showed a balance of $39,829. In another case, the RCEB records

showed that the client account had a balance of $7,035, and we determined that the actual balance was $6,633.

Additionally, the RCEB has not posted all receipts to client balances. For example, in March 1987, the RCEB failed to post benefit income totaling $129,000 to the individual client accounts although it did deposit the income in the bank. Similarly, for one of the five clients whose accounts we reviewed, the RCEB had not posted benefits totaling $621 for May 1986 even though it had received the benefits. Although the staff person responsible for maintaining client accounts was aware of the errors, she still had not posted the benefit income as of April 1988.

Further, the RCEB has not allocated accrued interest earnings to individual client accounts. The RCEB keeps a joint checking account for all of the individual client accounts. The bank provides a monthly bank statement that states the amount of interest earned by the joint account each month. The RCEB is responsible for determining how much monthly interest earnings should be distributed to each client account. However, from January 1986 to February 1988, the RCEB had not allocated interest earnings amounting to approximately $69,000 to client accounts.

Because the RCEB is not adequately accounting for client monies, in addition to other errors, all individual client accounts are understated by the amount of interest that the client has earned from the joint account in the past two years. For example, we reviewed five client accounts and calculated the amount of interest earnings that the clients should have posted to their client accounts. The five client accounts failed to show interest earnings totaling $3,615 for a two-year period. One of the client accounts was understated by $1,709 as a result of the RCEB's not posting interest earnings to the client's account. In addition, the interest earnings are not available to the clients for use. For example, 41 clients for whom the RCEB was the representative payee have left the regional center between January 1986 and April 1988. Because the RCEB had not allocated interest, these clients or their estates received the principal amount of their money only. They were not able to take the interest with them.

As a result of the condition of the client accounts, the RCEB has had to hire temporary accountants to correct the account balances. To hire these accountants, the RCEB has had to use money that it could have used to improve services to clients. In 1985, the department spent $109,000 to contract with an independent consulting firm to provide services to the RCEB; part of the services included working on client accounts. The RCEB had to hire an independent consulting firm to reconcile the client accounts again in 1988. Through April 8, 1988, the RCEB had paid approximately $63,000 to temporary accountants and consultants.

Furthermore, the individual client accounts contain state money because the RCEB did not apply all benefit income to the cost of services, because the RCEB made unnecessary loans to clients, and because the RCEB made errors in posting to the client account. However, because the RCEB does not have accurate account balances, the RCEB does not know how much of each client account belongs to the client and how much belongs to the State.

The RCEB client monies have not been appropriately accounted for because, according to the executive director of the RCEB, the RCEB employees responsible for the client accounts were not receptive to the training provided by the department. Additionally, the RCEB staff members did not understand how to use the automated system for maintaining client accounts because the manuals for the automated system were not made available to the staff members. As a result, the RCEB staff were not closely monitoring client accounts and performing maintenance on client accounts to ensure that client account balances were accurate. Moreover, because the client accounts were not accurate, the RCEB has not been able to allocate interest earnings to the client accounts.

Additionally, prior RCEB management did not provide sufficient attention to ensure the proper posting of transactions to the client accounts, did not correctly reconcile the client trust fund to the bank statements, and did not ensure that staff made appropriate adjustments to the client accounts.

Provider Management
<u>of Clients' P&I Monies</u>

Residential care providers contracted by the RCEB do not accurately account for or always appropriately expend client P&I monies. Clients who receive benefits under the Supplemental Security Income/State Supplementary Program (SSI/SSP) get P&I monies from the Social Security Administration to purchase personal items that the clients need or desire and that the residential care provider does not normally provide. Personal items may include such purchases as toys, beauty supplies, and entertainment. Residential care providers administer the P&I monies for the clients, or clients can manage their P&I monies if the Social Security Administration deems them capable. The department requires residential care providers to keep accurate records of the expenditure of client P&I monies. The department also requires residential care providers to keep a separate record of each client's monies, to keep receipts, and to keep client monies separate from facility funds. Title 17 of the California Code of Regulations also requires regional centers to monitor the use of a client's P&I monies when the client's residential care provider is responsible for administering the monies.

At four residential care facilities, we reviewed the P&I ledgers for three to five clients to ensure that residential care providers purchased appropriate items and documented the purchases with receipts. We also reviewed the ledgers to ensure that the providers had correctly recorded and calculated the income and disbursements

posted to the ledgers. Each of the four residential care providers that we visited that contract with the RCEB did not always keep proper receipts for client expenditures. A total of $1,972 in expenditures without receipts was charged to 12 clients, according to their P&I ledger cards. For example, one residential care provider charged $100 to a client's P&I ledger without having a receipt of any purchase. Another residential care provider charged a total of $175 to 5 clients' P&I ledgers for alleged purchases but supported the charges with receipts that the residential care provider had written himself.

To verify that care providers actually made the reported purchases, we asked the providers to show us specific items that the ledger cards indicated had been purchased for clients. Two of the residential care providers that we visited could not locate some of the items recorded as purchases for clients. In one case the residential care provider could not locate an electric razor worth approximately $40. In the other case, the residential care provider could not locate a tape recorder that was reportedly purchased for a client.

One of the residential care providers that we visited charged to the clients' P&I accounts items for which the care provider should be paying. For example, the residential care provider charged meals to the clients' P&I accounts, in one instance charging a client $25 for a restaurant meal during the period that we reviewed. However, residential care providers are required to provide clients with three nutritious meals daily, at no additional expense to clients. This

residential care provider also charged three clients $75 each for planned parenthood classes whereas another provider that we visited held planned parenthood classes at no additional expense to the client.

Additionally, four residential care providers that we visited had not properly recorded client benefit or work income and client expenditures or properly calculated the balance of P&I monies due to the client. As a result, 9 of the 16 client ledgers reviewed were understated by a total of $104. For example, one provider recorded a client's receipt of $35 in P&I monies as a cash disbursement to the client's balance. Consequently, the client's ledger was understated by $70.

Further, one residential care provider commingled client money with facility money. In each client account that we reviewed, the client's savings account according to the bank statement held more money than the client's P&I ledger indicated belonged to the client. The residential care provider stated that he periodically adjusts the bank savings account balances for the clients, but the bank accounts rarely hold the exact amount of money owned by the clients. The residential care provider stated that the surplus money in the accounts belongs to the facility.

Because some residential care providers do not have an accurate record of all clients' P&I balances and because residential care providers administer the client monies, clients do not always have

access to all the money due to them. Nine of the 16 accounts that we reviewed were understated by a total of $104. Further, client monies are spent inappropriately for purchases that the residential care provider should pay for, and the regional center has no assurance that the deductions made are actually for the clients' benefit.

Residential care providers were deficient in managing P&I monies because, in part, they were unclear about their responsibilities or untrained in the accounting required to manage P&I monies. Another reason for the problem is that the RCEB caseworkers do not regularly review the management of P&I monies. For 31 (53 percent) of 59 clients that we reviewed, the clients' caseworkers did not adequately monitor the clients' P&I monies. The RCEB has not yet provided this assistance because, according to the RCEB's executive director, the RCEB does not have adequate staff to monitor P&I monies, and the RCEB has other priorities for the fiscal monitor who is responsible for monitoring client P&I monies.

Furthermore, the department has not sufficiently reviewed the RCEB to detect that the RCEB does not adequately oversee client P&I monies. The department, until 1987, had not performed a Client Assessment and Service Effectiveness (CASE) review on the RCEB. During the CASE review, the department determines whether regional centers adequately monitor residential care providers' administration of client P&I monies.

OTHER AREAS REVIEWED AT THE RCEB

We reviewed other issues at the RCEB, including the procedures used to approve providers and purchase client services. For fiscal year 1986-87, the department allocated $19.5 million to the RCEB to purchase services for clients. When caseworkers identify a need on the part of a client, the caseworker finds a provider who can fill the client's need, whether the need is for a residential facility, a day activity program, medical attention, or medical supplies. The caseworker then requests approval and funding for the service. We selected 40 disbursements made to purchase client services and supplies during fiscal year 1986-87; the types of disbursements that we selected were in approximate proportion to the total types of disbursements made by the regional centers. For example, the majority of services purchased by regional centers is for residential facilities; likewise the majority of our sample consisted of disbursements to residential facilities.

We reviewed the files at the RCEB that contain background information on 33 of the providers in our sample to ensure that the providers were appropriately licensed and that the regional center had gone through the procedures established by the department to screen providers before using them. Our sample comprised care providers such as residential facilities, day activity programs, medical personnel, and suppliers of medical equipment and supplies. We also verified

providers' licenses with the agencies responsible for licensing them. We did not find significant problems with the process that the regional center uses to approve providers.

We reviewed the case files to ensure that the services purchased for the clients in our sample were included in the clients' Individual Program Plan and to ensure that caseworkers acknowledged in the quarterly or annual reports that they write for each client that the client received the services. We also reviewed regional center documents to ensure that the RCEB had paid providers the correct rate and had correctly calculated and approved the invoices. We found that for each of the disbursements in our sample, the RCEB had properly authorized the service that had been purchased, used the correct rate to pay the vendor, and correctly calculated and approved the invoices.

Also, we determined whether the RCEB employees were also working for a care provider, which would constitute a conflict of interest prohibited by Section 4626 of the Welfare & Institutions Code and Section 54521 of the California Code of Regulations. We submitted the social security numbers of the RCEB's employees to the Employment Development Department. This department provided us with the sources of income for each employee during fiscal year 1986-87. We then verified whether any regional center employees had also received income from a care provider. Of 128 RCEB employees, we found one who reportedly had received income from a care provider concurrently. We referred this potential conflict of interest to the appropriate

authorities. Further, we selected a sample of 20 employees and 5 past employees of the RCEB and determined whether each employee had a conflict-of-interest form on file, whether any had claimed a conflict or potential conflict, and whether the regional center had filed a waiver or otherwise resolved the conflict. We found that the RCEB had conflict-of-interest forms on file for the employees.

CORRECTIVE ACTION

The RCEB hired a new executive director and a chief financial officer in November 1987. To correct its accounts, the RCEB hired temporary staff, working under the direction of the chief financial officer, to perform reconciliations of bank reports with RCEB accounts from prior fiscal years to February 1988 and to reconcile the client accounts.

The RCEB has also reorganized its finance department and hired additional staff. According to a plan of corrective action that the RCEB submitted to the department, the RCEB is also considering alternatives to provide more separation of duties related to income and expenditure. In addition, the RCEB plan calls for a new data processing department to coordinate automated accounting activities.

To improve controls over disbursements and check stock, the fiscal manager now keeps a manual record of all handwritten checks and reconciles this record to the monthly bank statements. Also, the RCEB

now stores blank checks in a locked cabinet. In addition, the RCEB introduced a cash control summary in December 1987, which lists daily bank receipts and disbursements.

Finally, the RCEB is currently updating its operations manual and will provide staff with training on operations procedures.

THE DEVELOPMENTAL DISABILITIES CENTER PROPERLY CONTROLLED MOST OPERATING DISBURSEMENTS

The Developmental Disabilities Center (DDC) properly controlled most of the operations disbursements that we reviewed for fiscal year 1986-87. The department allocated $7.0 million to the DDC for operating expenses in fiscal year 1986-87. Generally, the DDC had satisfactory controls over cash disbursements, payroll, purchasing, and inventory. However, the DDC did not properly document or approve some travel expenses and board of directors' expenses. Further, the DDC can improve its management of consultant contracts. Finally, the DDC does not take a physical inventory of its property.

Based on a review of 72 disbursements made for operations and client services in fiscal year 1986-87, we determined that the DDC has controls in place to ensure that checks written by hand and by the computer system are correctly entered into the computerized accounting system. The DDC wrote approximately 16,540 checks in fiscal year 1986-87. In addition, we found that the DDC has controls to ensure

that only authorized staff write checks. We also determined that the DDC properly separated the duties of its personnel and payroll functions. Also, the DDC correctly authorized and documented the salaries, overtime, and vacation and sick leave for all 21 employees that we reviewed of 203 employees paid for the bimonthly pay period ending June 13, 1987.

From our review of the purchasing and inventory functions at DDC, we determined that the DDC also correctly separated the duties related to purchasing and receiving equipment and supplies, maintaining the stockroom, and controlling the inventory. In addition, the DDC correctly approved and documented 14 purchases of supplies and equipment that we reviewed from 251 entries for these purchases on the trial balance for fiscal year 1986-87. The value of the items in our sample is $46,608 out of a total value of $131,899, as reported on the 1986-87 trial balance dated June 30, 1987. Also, the DDC reported the nine items of equipment in our sample with purchase prices of $150 and more to the department and correctly affixed state identification tags to the appropriate items. Although we could not determine how many items of $150 and over the DDC purchased in fiscal year 1986-87, the DDC's inventory as reported to the department as of December 1987 consisted of 880 items with a total value of $299,599. Further, the DDC maintained controls over sensitive property by recording on a card the description of the item, the serial number, and the employee to whom the item was assigned.

Operating Expenses Not Always Approved or Documented

The DDC did not always properly document or approve operating expenses such as travel and board of directors' expenses to ensure that it paid only actual and allowable expenses. The department's RCFM states that a complete control system should have a system of recordkeeping procedures that will provide adequate control over assets, liabilities, revenues, and expenditures. In addition, the department's contract with the regional centers states that the regional centers shall establish and maintain procedures that assure the department that reimbursements to regional center employees and board members for necessary travel and expenses are equitable, reasonable, and properly documented. The DDC's travel policies require receipts and ticket stubs for transportation purchases and for business expenses over $2.50. In addition, the DDC's policies for the expenses of the board of directors and the executive director allow the board members and the executive director to submit credit card receipts with a description of the expense on the statement in lieu of receipts. Further, the DDC's policies state that an appropriate official must approve all expenses before payment.

Of 35 travel expenses reviewed out of the 1,574 travel expenses recorded on the trial balance for fiscal year 1986-87, 4 (11 percent) did not include receipts in the files for transportation, hotel, or car expenses incurred, including one claim for airplane fare

of $178. The total amount of the undocumented expenses reviewed is $573. In fiscal year 1986-87, the DDC spent $56,682 for travel expenses.

Our review of 31 expenses from the 47 board of directors' expenses recorded in the trial balance for fiscal year 1986-87 also shows that the DDC did not always properly approve or document expenses before payment. Of the 31 expenses, 9 (29 percent), totaling $379, had no documentation, such as receipts, to support the expenses and/or lacked evidence of review or approval by the appropriate DDC official before payment. In fiscal year 1986-87, the DDC spent $10,717 for board of directors' expenses.

Another potential weakness results from the DDC's practice of prepaying some travel expenses. The DDC sometimes arranges and pays for lodging and transportation for employees and board members in advance of their travel. DDC employees are not required to submit travel claims unless they are requesting reimbursement. Further, the DDC's travel procedures do not require employees to provide documentation that they completed the travel assignments for which the DDC prepaid the hotel or transportation expenses. Good business practices, however, would dictate that the DDC confirm that employees actually used the prepaid reservations. Nine of the 35 travel expenses that we reviewed for fiscal year 1986-87 were for reservations that the DDC had paid in advance. For 6 (67 percent) of the 9 expenses, the DDC did not verify that the employees actually used the reservations. For

example, the DDC made a hotel reservation for one employee and prepaid the hotel $92. However, the employee did not submit a travel claim or any other documentation to indicate that she had, in fact, completed the travel assignment and used the prepaid reservation in the hotel. The six prepaid travel expenses that the DDC did not verify were used totaled $1,266.

Of the 66 travel and board of directors' expenses that we reviewed, the DDC paid 15 (23 percent) without proper documentation or approval. These 15 expenses totaled $1,389. Insufficient review or approval of expenses may result in the DDC's paying for expenses that are not justified. In addition, without some evidence to document that, for prepaid reservations, the employees actually traveled, the DDC cannot ensure that it received the services for which it paid.

Some of the receipts for travel expenses may have been lost after the DDC official approved the travel expenses. In other cases, the lack of evidence of approval or documentation was due to the DDC staff's error during the review process. For the prepaid travel reservations, the DDC has not required employees to document their completion of the travel assignments because management assumed that the employees completed the travel assignments, and it had not thought to request verification.

Contract Management Needs Improvement

Standard contracting procedures require that the terms and conditions of the contract, such as payment amounts, maximum payments, and allowable expenses, be defined in a written agreement. In addition, standard contracting procedures require that contract work not begin until the contracting agency officially approves the contract.

For three of the five consultant contractors reviewed out of the eight consultant contractors listed on the trial balance for fiscal year 1986-87, the consultants began work before the DDC had approved the contracts. In addition, the DDC amended one consultant's contract after the contract term had ended to pay the consultant for additional general expenses amounting to $455 that the original contract did not cover. According to the trial balance, the DDC spent $102,964 for consultant contract expenses in fiscal year 1986-87.

The executive director said that the DDC had a verbal agreement with the consultant when the consultant began work before the contract had been approved. The executive director further stated that the DDC is still developing policy regarding contract administration.

Annual Inventory Not Completed

The DDC maintains inventory controls such as recording serial numbers, the description, and location of sensitive equipment, and we were able to locate all of the items in our review. However, the DDC does not conduct an annual physical inventory of its equipment, nor does it maintain an automated equipment inventory as required by the department.

We reviewed the inventory controls over nine items with purchase prices of $150 and over and with a total value of $2,686. We were able to locate all nine items easily because the DDC maintained records with the location of each item. Also, the DDC had reported all nine items to the department, so the department included them in its inventory list. Further, the DDC had affixed uniquely numbered state inventory identification tags to all nine items. Finally, for the four easily portable, and thus sensitive, equipment items in our sample, the DDC recorded the serial numbers, the description of the items, and the location, as required by the department's RCFM. The amount of property recorded on the department's inventory list for the DDC at the end of December 1987 was $299,599.

The department instructed the regional centers in 1986 to complete an annual physical inventory of all state-owned equipment with an original purchase price of $500 or more during the years when the

department is not scheduled to conduct inventories at the centers. Also, the contract between the department and the DDC for fiscal year 1986-87 states that the contractor shall maintain an automated equipment inventory.

At the time of our fieldwork, the DDC had not had a physical inventory of its equipment since 1985 when the department last scheduled a physical inventory at the DDC. The director of administration stated that the DDC has not taken a physical inventory because of the complexity of the task and the limited staff available. In addition, the DDC does not maintain an automated inventory. However, according to the director of administration at the DDC, the purchasing clerk coordinates with the department staff to ensure the accuracy of the inventory information. In addition, at the end of the fiscal year 1986-87, the DDC performed a reconciliation of its property records maintained on the department's computerized inventory system.

THE DDC DOES NOT USE ALL THIRD-PARTY BENEFITS TO PURCHASE CLIENT SERVICES

The DDC does not administer client monies to make the most efficient use of state funds for client services. The DDC did not apply all client benefit monies from third-party sources towards the cost of providing services to the clients. We reviewed 27 client accounts at the DDC covering a period of up to six months each, and we found that, for 7 clients, the DDC did not apply approximately $2,500 in third-party benefits to the cost of services. When the DDC does not

appropriately administer third-party benefits, it unnecessarily uses state funds to pay for client services. The DDC is not applying all of the client benefit amounts received towards purchasing services because its management believes that to do so would mean that clients are unequally paying for services based on who the representative payee is. See Chapter I, pages 20 to 27, for a detailed discussion of this issue.

OTHER AREAS REVIEWED AT THE DDC

We also reviewed client account maintenance at the DDC. In April 1988, the client trust fund at the DDC had a ledger balance of $216,869 and comprised 1,315 client accounts. We reviewed the accounts of 27 of these clients for up to six months each. We reviewed the account transactions to ensure that the DDC had correctly posted income and disbursements to the accounts. We found that it had posted all income and disbursements in the correct amounts and did not make unnecessary loans to clients. Additionally, the DDC collected repayment on loans made to clients and ensured that individual client accounts did not exceed the limit placed by the SSA. Finally, we visited four residential facilities to review the care providers' administration of client P&I money. We did not find significant problems.

We also reviewed the DDC's procedures for purchasing client services. In fiscal year 1986-87, the department allocated $17.5 million to the DDC to purchase services for clients. We performed the same audit steps to review the use of providers at the DDC as we described for the RCEB on pages 91 to 92. Each of the providers that we reviewed was properly licensed, and the regional center had gone through the appropriate steps as required by the department to approve the providers before using them. Additionally, each of the approximately 40 disbursements that we reviewed had been properly authorized, and the DDC had paid the provider the correct amount. Further, the DDC caseworker made quarterly reviews to ensure that the client had received the service. Finally, we compared the attendance records at two day programs to the attendance reported by the programs for payment. We found no discrepancies between the attendance reported for payment and the attendance records kept at the facility.

Finally, we applied the same steps as described on pages 92 to 93 for the RCEB to the DDC to determine whether regional center employees were also working for a care provider, which would constitute a conflict of interest prohibited by the Welfare and Institutions Code and the California Code of Regulations. Of 199 regional center employees, we found no one who was working concurrently for a care provider.

CONCLUSION

Of the two regional centers that we visited, the Developmental Disabilities Center had satisfactory controls in most areas reviewed. The Regional Center of the East Bay, however, had poor controls in multiple areas, increasing the potential for theft, fraud, and abuse.

Specifically, the RCEB lacked proper fiscal and administrative controls to ensure efficient expenditure of or accountability for state and client funds. Additionally, the RCEB has not made the maximum use of monies available to purchase services for clients because it uses state funds to purchase these services when third-party benefits, which should be used first, are available. Also, the RCEB has not monitored payments to day program providers to ensure that clients receive the services for which it paid.

The RCEB also has not maintained accurate balances for client accounts, nor has it ensured that residential care providers properly account for client personal and incidental monies. Most of the problems found at the RCEB are the result of a lack of staff expertise and inattention from prior management of the RCEB.

Although the DDC properly controlled most operating disbursements, the DDC did not properly document or approve all of the travel and board of directors' expenses that we reviewed. Most of the undocumented and unapproved expenses resulted from staff error. In addition, the DDC can improve its management of consultant contracts. Finally, the DDC has not applied all third-party benefits to the cost of services purchased for clients.

RECOMMENDATIONS

The Department of Developmental Services should ensure that the Regional Center of the East Bay take the following actions to improve its controls over disbursements and assets:

- Enter all disbursements into the correct accounts;

- Store its blank check stock in a locked area, and allow access only to authorized employees. The RCEB should use checks in sequential order and should maintain a log of all checks used;

- Obtain pre-purchase approval, evidence of receipt, and approval of expenses and disbursements before payment;

- Review travel claims more carefully to ensure that it pays only those travel claims that are properly documented. In addition, the RCEB should approve payment for meal costs incurred on the last day of travel only as specified in its travel procedures;

- Ensure that all staff follow its and the department's purchasing policies;

- Sufficiently separate personnel and payroll duties and purchasing, stockroom, and inventory control duties;

- Implement proper inventory controls. The RCEB should take a physical inventory and maintain a property ledger. In addition, the RCEB should follow the department's procedures for control over sensitive property. Finally, the RCEB should consistently report property with purchase prices of $150 and over to the department and affix state identification tags to this property; and

- Accurately account for all advances to providers. In addition, the RCEB staff should reconcile reports of advance payments with supporting repayment documentation. The RCEB should attempt to collect any outstanding advances to providers.

To make certain that day program providers report accurate attendance information, the department should ensure that the RCEB take the following steps:

- Randomly review attendance reporting by day program providers as required in the contract, and compare the invoices submitted to RCEB against the attendance records kept at the clients' residences; and

- Verify receipt of the services for which it pays.

The department should ensure that the RCEB take the following steps to maintain accurate client account balances:

- Reconcile individual client accounts to the client trust fund balance;

- Properly post transactions to the client accounts;

- Review the accuracy of its records. For example, the RCEB should periodically review the Subsidiary Account Balance and the Trust Status Report Balance to determine whether the sum of the individual client accounts and the balance of the client trust fund differ; and

- Reconcile client accounts, and use its automated accounting system to allocate accrued interest to client accounts.

To make certain that residential providers contracted by the RCEB accurately account for and appropriately expend client personal and incidental monies, the department should ensure that the RCEB implement the following actions:

- Provide training and information to providers in maintaining client monies;

- Train its caseworkers to review providers' management of client P&I monies during quarterly and annual reviews of providers, and ensure that caseworkers review providers' management of P&I monies at quarterly visits; and

- Correct inaccurate client P&I accounts, and require providers to reimburse clients' monies when appropriate.

The department should ensure that the DDC take the following steps to improve its controls over disbursements for operations:

- Pay for expenses only with proper documentation;

- Require employees to confirm that they used all prepaid travel and other reservations;

- Develop procedures for contract management, and require that its staff follow the procedures; and

- Conduct a physical inventory during the years when the department does not conduct an inventory. The DDC should maintain an automated inventory as required by the contract.

See Chapter II for recommendations on making the most efficient use of state funds for client services by using third-party benefits and monitoring providers.

To ensure that regional centers have adequate controls for maintaining client monies, the department should take the following steps:

- Monitor the regional centers' maintenance of client accounts more frequently. The department should regularly use control reports from the automated accounting system to identify regional centers having trouble maintaining client accounts;

- Review how regional centers provide information and training to residential providers regarding the maintenance of client P&I monies;

- Periodically review how regional centers monitor residential providers' maintenance of client P&I monies; and

- Review providers' management of client P&I monies periodically.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

THOMAS W. HAYES
Auditor General

Date: August 15, 1988

Staff: Steven L. Schutte, Audit Manager
Melanie M. Kee
Linda W. Lindert
Kay E. Overman
Ronald J. Kral
Susan L. Wynsen

ATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY GEORGE DEUKMEJIAN, *Governor*

EPARTMENT OF DEVELOPMENTAL SERVICES
00 9TH STREET
CRAMENTO, CA 95814
Y 323-5901

August 8, 1988

Mr. Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

Mr. Clifford Allenby, secretary of the Health and Welfare Agency, has asked me to respond to your report entitled "California's Regional Center Programs for the Developmentally Disabled Need Better Financial Controls." I appreciate the extension given this Department in preparing its response and the cooperation shown by your staff in working with us to resolve many of our concerns.

In responding to this report, I have structured my comments into six major sections:

- o Departmental Responsibilities for Third-Party Benefits
- o Status of the Fiscal Control Systems Within Five Regional Centers
- o Departmental Oversight Responsibilities for Regional Center Fiscal Management Systems
- o Departmental Responsibility for the Implementation and Maintenance of the Uniform Fiscal System within the Regional Center System
- o Departmental Responsibility for Regional Center Inventory Controls
- o Specific Findings at Regional Center of the East Bay (RCEB) and Developmental Disabilities Center of Orange County (DDCOC)

As background to our response to "California's Regional Center Programs for the Developmentally Disabled Need Better Financial Controls," I think it is worthwhile to clarify the unique design of the developmental disability system within California, specifically, the relationship between the Department of Developmental Services (DDS) and the regional center system.

The Lanterman Developmental Disabilities Services Act of 1977 established a system for the provision of services to the developmentally disabled consisting of a State Council on Developmental Disabilities, thirteen area boards on developmental disabilities, the Department of Developmental Services, and the regional center system. Each entity is an integral part of the whole, however, each is also independent.

In the specific case of the regional center system, Welfare and Institutions Code Sections 4620-4621 delineate the requirement that the Department shall establish contractual relationships with private non profit community agencies for the provision of services to the developmentally disabled. Subsequent sections provide greater detail regarding how this relationship will be maintained. The importance of this distinction is that while this Department controls the funding of the regional center system, the very nature of the contractual relationship allows these agencies a great degree of independence of action.

Departmental Responsibilities Relative to Third-Party Benefits

The report states that some regional centers do not use all available third-party funds to defray regional center costs as they are required to do by Welfare and Institutions Code Section 4659. The Department agrees that while many regional centers are aggressively working to identify and pursue all third-party funds, other regional centers have, for a variety of reasons, been more passive. The Department believes, as indicated in the report, that it has no express authority to require that the regional centers take any particular steps to collect third-party funds; however, the Department also believes that the regional center may work independently to collect the funds. For example, a center may choose to bring a collection action against the client, a representative payee, the third-party or whoever has custody of the funds. It appears from the findings in the report that some regional centers are not fully aware of their options in this area, despite the fact that the Department has communicated its policy regarding use of third-party funds to the regional centers in Regional Center Operations Manual (RCOM) Section 3810 (incorporated in the regional centers' contracts), Community Services Division letter (CSD) 87-5, dated December 21, 1987, and Regional Centers Operation letter (RCO) 87-45, dated July 10, 1987. Although the Department cannot require any specific action, it will continue to work with the regional centers to clarify their responsibilities and their possible courses of action in this area, provide technical assistance as needed and monitor the centers for compliance. As the report points out, issues with state and federal privacy acts may prevent the regional centers from obtaining the information they need to fully identify and pursue third-party funds. If this proves to be the case, the Department will investigate what further options exist, including as recommended in the report, an Attorney General opinion and/or new legislation.

Status of the Fiscal Control Systems Within Five Regional Centers

The first finding of the report indicates that "since 1985, at least 5 of the 21 regional centers have experienced serious fiscal management problems." With the exception of the degree of seriousness of the fiscal problems as they relate to Alta California Regional Center (ACRC), the Department does not disagree with this. However, since 1983, through its monitoring and oversight activities, DDS identified fiscal problems which existed in five centers and then took steps to correct them. This included changing contractors in two centers (San Gabriel/Pomona Regional Center [SG/PRC] and Redwood Coast Regional Center [RCRC]) and facilitating major management/board changes at three others (Regional Center of the East Bay [RCEB], South Central Los Angeles Regional Center [SCLARC], and San Andreas Regional Center [SARC]).

The Audit Branch has evaluated the 21 regional centers based on the audit indicators run in March, 1988. This evaluation isolated the nine indicators that related to the most critical areas of fiscal operation. This evaluation disclosed that one of the centers noted above, ACRC appears to be operating in an acceptable manner with no major fiscal problems. Two other centers, SARC and SG/PRC, appear to be experiencing some problems in the fiscal area. However these do not approach the level of severity of former problems and are not as serious as those experienced by SCLARC and RCEB, both of which this Department is continuing to monitor and provide with technical assistance.

Departmental Oversight Responsibilities for Regional Center Fiscal Management Systems

As noted in the report, the Department discontinued its regular audits of the regional centers in Fiscal Year 1984-85, however, regional centers did not go unaudited during this time. This change was made for several reasons, including the decision to rely on the independent audit reports. It was also felt that the reallocation of the limited audit resources to closer monitoring of vendors would result in more efficient use of program funds and actual recovery of funds for the Department. Further, during Fiscal Years 1984-85 through 1985-86, the Department was implementing the Uniform Fiscal Systems (UFS) system in the regional centers. This required a total revamping of their fiscal systems and, as a result, would have made a comprehensive departmental audit program impractical.

Desk reviews were performed for Fiscal Years 1984-85 and 1985-86 of the work done by the independent auditors. As a result of these reviews, funds due the state were identified and remitted to the Department. In the current review of independent audits for Fiscal Year 1986-87, seven regional centers were identified as having amounts due the state. Three regional centers, North

Los Angeles County Regional Center (NLACRC), Far Northern Regional Center (FNRC), and ACRC, have submitted the amounts due which total $12,082.

The Department had expected that, as part of the independent audits, a review of internal controls would be conducted as specified by the Generally Accepted Auditing Standards. This review is performed in order to determine the amount of substantive testing necessary to render an opinion on the financial statements. However, we agree with the Auditor General's concerns regarding the review of internal controls at the regional centers, and plan to pursue the inclusion of a section in the regional center contract to require each center's independent auditor to perform a review of this area. In the interim, the Audit Branch will perform a limited review of internal controls as part of the regional center audits.

The report noted that the Department was slow to use the UFS for regional center auditing purposes. In November, 1985, after the initial installation of UFS at the regional centers, two auditors from the Audit Branch received training on the system and utilized this training to assist the UFS staff in developing the Medicaid Waiver Billing System (MWBS). Subsequent to this training, the Client Source of Funds Tracking (CSOFT) software was installed which substantially changed several areas of the UFS and the decision, as mentioned above, was made to discontinue the regular audits of regional centers.

Currently, the Audit Branch is using the audit indicators, which were developed by Arthur Andersen & Co., to perform a preliminary evaluation of the regional centers and identify possible problem areas. This evaluation, along with the review of the independent audit reports, is being used to select the regional centers that will be reviewed in Fiscal Year 1988-89.

Departmental Responsibility for the Implementation and Maintenance of the Uniform Fiscal System Within the Regional Center System

During Fiscal Years 1984-85 through 1985-86, the Department was implementing the UFS in the regional centers. This time period covered the original UFS software as well as the CSOFT software. Although the regional centers were learning the new system and data problems were identified during the implementation period, the Department developed several systems using the UFS for input.

A significant system developed during this period was the MWBS. Established October, 1985, the MWBS ensures the Department will only bill for clients that are eligible, disallows clients in inpatient facilities, prevents claiming of client room and board and claimed for Medi-Cal from the Department of Health Services. The reports generated from this system allowed DDS staff to

resolve many discrepancies in the data and ensured the billing of approximately $12,000,000 last year.

In 1986, the Department installed in the UFS a Community Placement Program System (CPP) that tracks data for all clients moving from developmental centers into the community. This system identifies valuable program information that allows for more accurate budget projections.

Another system using UFS data was developed in early 1986. The Client Transfer system allows regional centers to automatically transfer client information to other regional centers and updates the DDS data base. DDS, therefore, has a current status of all regional center clients.

An automated Client Development Evaluation Reporting (CDER) system was added to UFS in September, 1986. This system provides regional centers with the ability to directly input client data and transmit the information to the DDS data base. The data is used by the Department for budget projections, long-range planning, and rate determination.

The Department believes it has made every effort to ensure that the regional centers could effectively use the UFS. The regional centers have been provided with extensive training by the private contractor who developed UFS, as well as ongoing technical assistance from the CSD-UFS Information System Staff (UFSIS). Despite the best efforts of this Department, there were, nevertheless, some centers which, because of their own internal organizational problems, were not able to effectively utilize this system.

Departmental Responsibility for Regional Center Inventory Controls

The final finding relative to DDS concerns adequate safeguard of state property. The Department agrees that some problems did exist with the previous regional center inventory process. To correct these problems and to ensure the adequacy of equipment safeguards, the Department developed and implemented new regional center inventory procedures effective July 1, 1988. These procedures provide for the following:

- maintaining a current property custodian list;
- providing technical assistance to the property custodians at the regional centers as needed;
- monitoring regional centers to ensure that all property custodians return the updated inventory lists.

In addition, by August 19, 1988, the procedures will be amended to include a formal notification process which communicates inventory findings to the Department's Administration Division and Community Services Division managerial staff.

We are not aware of any misuses or malicious disregard for the safeguarding of state property. However, we believe these new inventory procedures, when institutionalized, will ensure regional center contract compliance relative to equipment inventory control.

Specific Findings at Regional Center of the East Bay and the Developmental Disabilities Center of Orange County

The final segment of the report's findings deals with a review of the financial operations of two regional centers, RCEB and DDCOC. I will not comment on the specific findings of your staff except to note that I agree that RCEB has significant problems in the fiscal area. My staff has identified these concerns and, as indicated earlier in this letter, is working with that center to correct their deficiencies.

Again, I appreciate the spirit of cooperation shown by you and your staff in working with us on this report.

Sincerely,

GARY D. MACOMBER
Director

Enclosure

developmental disabilities center

office of the board of directors

July 22, 1988

Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

We appreciate this opportunity to comment upon the Auditor General's report P-744 California's Programs for the Developmentally Disabled Need Better Financial Controls.

The Developmental Disabilities Center (DDC) wishes to acknowledge the professionalism and competence exhibited by the Auditor General's staff in the conduct of their audit of this regional center.

The purpose of this response is to provide the reader with the assurance that immediate action was taken to implement the recommendations outlined in this report subsequent to our exit interview on April 13, 1988. Although the areas noted deficient constituted an extremely small portion (.0001%) of our FY 1986-87 $24,476,199 State contract, actions were promptly implemented to ensure the staff errors noted do not recur.

Sincerely,

ELAINE E. BAMBERG

Elaine E. Bamberg
Executive Director

EEB/lmc

cc: Board of Directors

central tower, union bank square
500 south main street, orange, california 92668-4579
24 hour telephone (714) 973 1999

RCEB

REGIONAL CENTER OF THE EAST BAY

2201 BROADWAY, OAKLAND, CALIFORNIA 94612-3402

(415) 451-7232/TTY: (415) 763-2910

July 25, 1988

Thomas W. Hayes
Auditor General
State of California
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

The Board of Directors of the Regional Center of the East Bay would like to express its appreciation to Ms. Melanie Kee and her audit staff for their assistance and review of RCEB operations. The staff of the Auditor General's office is to be commended for their expertise and technical assistance extended to the management of RCEB during their review. All recommendations contained in their findings have been implemented as part of our Plan of Corrective Action and their suggestions for corrections were appropriate and helpful.

These past eighteen months have been the most difficult of times for the Board of Directors of the Regional Center of the East Bay in replacing its Executive Director and additional staff. We are confident that our plans for correction are on target and that in the coming weeks and months significant enhancements to our systems and procedures will be in place.

RCEB has instituted performance based contracts and fixed responsibility and accountability throughout our organization. Additionally, RCEB has instituted a management-by-objectives system which greatly facilitates the Board's oversight function and we have requested Department of Developmental Services approval of a management information system adopted from San Diego Regional Center (SANDIS) which will provide timely information which heretofore was nonexistent for the Board and its Committees to adequately monitor our operations.

Thomas W. Hayes
July 25, 1988
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The Department of Developmental Services, as well as Peat Marwick Main & Co., have been extremely generous in their technical assistance to RCEB and their guidance and cooperation is deeply appreciated by the Board.

Sincerely,

Jacque L. Kildare

Jacque L. Kildare
President
RCEB Board of Directors

JLK/sd

cc: Melanie M. Kee

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps